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ABSTRACT

The task of designing future postsecondary education policy in fiscal year 1981 is discussed in relation to two unique conditions. First, the federal role as a provider of student assistance was increased dramatically in 1978 by passage of the Middle Income Student Assistance Act, and the full costs of implementing MISAA are coming due. Second, the Congress faces increasing pressure, both internally and externally, to reduce federal spending. The tradeoffs are discussed: federal benefits can continue to be distributed broadly to postsecondary students, resulting in substantially increased federal expenditures, or funding can be reduced. Under current law, the reduction would affect lower- and moderate-income students more than others. New legislation could target federal assistance more directly on the most needy students, so that cost reductions would be borne more by middle-income students and their families. Data charts illustrate detailed examinations of the options at issue. Chapters focus on: the purpose and impact of federal postsecondary education policy; reauthorization and funding of federal grants to students; reauthorization of student loans; efforts to remove nonfinancial impediments to equal educational opportunity; and overall budget implications of future federal policy for student assistance. (Author/MSE)

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Budget Issue
Paper for
Fiscal Year 1981

Federal Student Assistance: Issues and Options

ED187272

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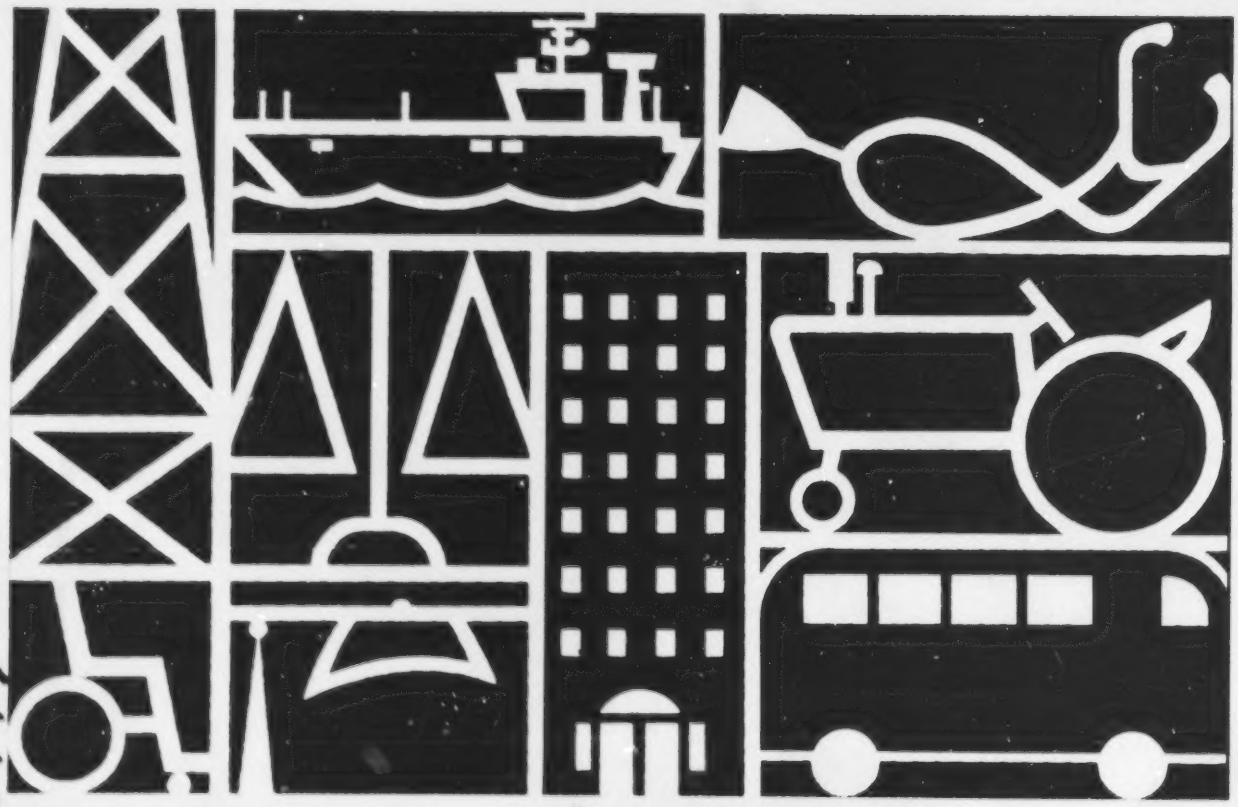

Congressional Budget Office
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FEDERAL STUDENT ASSISTANCE:

ISSUES AND OPTIONS

The Congress of the United States

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PREFACE

At a time of mounting pressure to constrain federal spending, the Congress is about to reauthorize the Higher Education Act. One critical issue is whether to maintain or alter the current focus of the major federal student assistance programs. A number of proposals are being considered. Some would significantly increase the federal role in student assistance; others would reduce and retarget federal aid. This paper examines the current federal role and analyzes the probable impact of the various proposals.

The report was prepared in response to requests from the Senate Budget Committee and the Subcommittee on Postsecondary Education of the House Committee on Education and Labor. In accordance with the Congressional Budget Office's mandate to provide objective and impartial analyses of budget issues, it contains no recommendations.

The report was written by David Longanecker of the Human Resources and Community Development Division, with the assistance of Deborah Kalcevic and Fay Jan Lim under the direction of David S. Mundel. Francis S. Pierce edited the manuscript, and Rosetta Swann typed the several drafts. The author wishes to thank Wayne Anthofer, Ellen Arvidson, Jill Bury, Alfred Fitt, Joel Slackman, and Larry Wilson for their comments and assistance.

Alice M. Rivlin
Director

March 1980

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SUMMARY

Two unique conditions make the task of designing future postsecondary education policy particularly challenging this year. First, the federal role as a provider of student assistance was increased dramatically in 1978 by passage of the Middle Income Student Assistance Act, and the full costs of implementing MISAA are now coming due. Second, the Congress faces increasing pressure, both internally and externally, to reduce federal spending.

The tradeoffs are clear. Federal benefits can continue to be distributed broadly to postsecondary students, resulting in substantially increased federal expenditures. Alternatively, funding can be reduced. Under current law, the reduction would affect lower- and moderate-income students more than others. New legislation could target federal assistance more directly on the most needy students, so that cost reductions would be borne more by middle-income students and their families.

TWO GOALS OF POLICY

Federal policies seek to pursue two goals simultaneously--to achieve equality of opportunity, and to reduce financial burdens for most students and their families. The first goal, measured in terms of educational attainment, has not yet been achieved; lower-income youth remain much less likely to attend college. But some progress has been made over the last decade in narrowing the gap in college enrollment rates. Many of the impediments that remain are not financial in nature: poor educational preparation, lack of awareness that financial aid is available, and students' lack of confidence that they can benefit from higher education.

With respect to the second goal--reducing the burden of college costs on students from middle- and higher-income families--the evidence is also mixed. Family incomes, even after taxes, have grown more rapidly than average college student costs over the last decade, suggesting that the burden on families has not increased. On the other hand, "sibling overlap"—that is, the number of years in which a family is

likely to have more than one child in college--has increased. Furthermore, the costs of attending specific types of institutions, particularly private colleges and universities, have increased more rapidly than family incomes.

WHO RECEIVES FEDERAL STUDENT ASSISTANCE?

The federal government has developed two types of student assistance programs--grant progams and self-help programs (loans and work-study). Until the Middle Income Student Assistance Act work-study of 1978, Congress had targeted most grant aid on students from lower-income families. MISAA expanded the major grant program, Basic Educational Opportunity Grants (BEOGs), to include many middle-income families. (The BEOG program still assists principally students from lower- and moderate-income families. In 1980, 82 percent of the benefits will go to students from families with incomes under $15,000.) MISAA also expanded the Guaranteed Student Loan program (GSL), making all students--regardless of their family incomes--eligible for in-school interest-free loans. Volume in the GSL program increased more than 50 percent in fiscal year 1979. Although the income distribution of GSL borrowers is not known, it is fair to assume that most of the increased borrowing is occurring among middle- and higher-income students who were not eligible for the highly subsidized loans prior to MISAA.

If current policies are continued, federal funding for student assistance will be $5.7 billion in fiscal year 1981. This funding will provide $9.6 billion in aid to students, 33 percent of it as grants and 67 percent as self-help (loans and work study). (See Summary Table 1.)

The federal government also provides nonfinancial assistance for academically, culturally, or economically disadvantaged students. This effort receives about 3 percent as much funding as student financial assistance. While not much is known about the effectiveness of these programs, one, Upward Bound, appears to have been successful in encouraging participants to attend college.

WHAT OPTIONS ARE AVAILABLE TO THE CONGRESS?

The Congress has three basic reauthorization and funding options: It can maintain the current programs, perhaps with

SUMMARY TABLE 1. FEDERAL STUDENT ASSISTANCE--FUNDING, BENEFITS, AND RECIPIENTS: IN MILLIONS OF DOLLARS AND THOUSANDS OF RECIPIENTS

	Current Level of Services in 1981
Federal Student Grants	
Funding	3,056
Benefits	3,142
Recipients	3,455
Federal Self-Help (Loans and Work-Study)	
Funding	2,634
Benefits	6,418
Recipients	3,983
TOTAL	
Funding	5,690
Benefits	9,560
Recipients	7,438

some refinements and improvements. It can expand and redesign the federal role in student assistance. Or it can reduce the federal role.

Maintaining Current Programs

Maintaining current programs would not significantly alter either the costs or the distribution of benefits, at least initially. In fiscal year 1981, benefits would increase by 8 percent, principally to keep pace with inflation. Federal costs

would increase 5 percent. In subsequent years, some significant changes would occur. Costs of the BEOG program would decline as growth in family incomes reduced students' eligibility. GSL costs would increase, though less rapidly than in the last few years.

Expanding the Scope of Student Assistance

H.R. 5192, passed by the House of Representatives, would expand federal student assistance, principally through increases in the BEOG program. Fully funding the BEOG component of H.R. 5192 would increase program benefits by $1.3 billion (52 percent) over extending current programs to 1981. In total, the increased benefits would be about evenly split between students from families with incomes above and below $15,000 (see Summary Table 2). Under H.R. 5192, BEOG costs would increase dramatically in future years, growing to $5.1 billion by 1984.

Although H.R. 5192 also would expand the GSL program by making parents eligible to borrow (at a less highly subsidized rate than students) and liberalizing some borrowing limits, this would not significantly increase GSL activity. In fact, there are few ways in which the GSL program could be greatly expanded because all students enrolled half-time or more are already eligible for the loans.

Because the Special Programs for Disadvantaged Students currently reach only a small portion of the target population, and because the current supply of potential project sponsors appears to exceed available funds, these programs could be significantly increased in size. Funding for the Upward Bound program, for example, could probably be expanded by as much as 50 percent simply to accommodate demand from additional qualified sponsors. Increases in other Special Programs could also be easily implemented.

Reducing the Federal Role

The federal role as a provider of student assistance could be reduced either through appropriations or through authorizing actions.

Constraints have been imposed in the past through the appropriations process. Using this course of action, however, could create problems in the future. Given the current mix of programs, imposing a limit on funding could have the perverse

SUMMARY TABLE 2. BASIC EDUCATIONAL OPPORTUNITY GRANTS PROGRAM--DISTRIBUTION OF BENEFITS AND RECIPIENTS UNDER VARIOUS OPTIONS, FISCAL YEAR 1981: BENEFITS IN MILLIONS OF DOLLARS, RECIPIENTS IN THOUSANDS

Parents' Adjusted Gross Income (in 1980 dollars)	Current Level of Services		H.R. 5192		Readopting 20-30 Percent Assessment Rate	
	Amount	Percent	Amount	Percent	Amount	Percent
0-14,999						
Benefits	2,186	85	2,861	74	2,026	96
Recipients	1,894	75	2,158	59	1,757	92
15,000-19,999						
Benefits	335	13	906	23	89	4
Recipients	540	21	1,263	34	155	8
30,000 +						
Benefits	40	2	120	3	2	0
Recipients	91	4	262	7	2	0
TOTAL						
Benefits	2,561	100	3,887	100	2,117	100
Recipients	2,525	100	3,683	100	1,914	100

effect of reducing grant assistance to needy students while leaving totally unchecked the growth in loan subsidies to higher-income students. Because it is an entitlement program, the costs of the GSL program--which provides aid regardless of need--cannot be controlled through the federal budget and appropriations process. Reductions in student assistance funding would have to be made in programs other than GSL. Most other programs, however, have minimum funding levels mandated by current law. A substantial budget reduction would have to be absorbed within the BEOG program. A small reduction in the BEOG program could be made without substantially reducing aid to

lower-income students because the program has a scheduled reduction formula that protects awards for the most needy students. Reducing the BEOG program by more than $250 million below the current level of funding, however, would cut aid to lower-income students as well as moderate- and middle-income students.

An alternative would be to redesign the student aid programs to reduce the federal role in student assistance while maintaining benefits for lower-income students.

Most of the proposals for reducing the federal role have focused on redesigning the student loan programs. Loans are the primary source of assistance to students with little or no financial need, so they offer the greatest potential for retargeting aid to needy students. Two legislative proposals, one proposed by the Administration (S. 1840) and one proposed by Senators Bellmon and Kennedy (S. 1600), would continue to provide highly subsidized loans to students with assessed need but eliminate the costly in-school interest-free subsidy for other students. Both plans would also allow parents to borrow under the less highly subsidized program. Either of these options would cost appreciably less in the long run than the current set of programs (see Summary Table 3). The Administration's proposal, however, would actually require increased federal outlays in the first years because it would mandate full appropriations for all the need-based loan capital. S. 1600, on the other hand, would be financed through federal borrowing; annual capital costs would initially be considerably lower, representing only interest on the borrowed funds. The Administration's loan plan for needy students would be phased in over three years to avoid excessive initial costs.

Although no legislation has been proposed that would control student assistance costs by restructuring student grants, such options are possible. For example, simply returning to the family contribution schedule that existed prior to MISAA, would significantly reduce the scope of the program--costs would be reduced by $444 million below extending the current program, and the number of recipients would be cut by 611,000 (24 percent). Nearly all of the reduction in recipients would occur among families with incomes above $15,000. All remaining recipients, except those with no discretionary income, would receive smaller awards.

SUMMARY TABLE 3. COMPARATIVE COST ESTIMATES FOR VARIOUS STUDENT LOAN OPTIONS: IN BILLIONS OF 1981 DOLLARS

	Current Programs	H.R. 5192	S. 1600	S. 1840 (at 60%)
Fiscal Year 1981 Costs, Including Prior Obligations	2.0	2.1	1.5	2.1
First-Year Cost of New Loans Provided in Fiscal Year 1981	0.7	0.7	0.5	1.2
Long-Term Cost of New Loans Provided in Fiscal Year 1981	2.8	2.9	2.4	1.3*

* Assumes 100 percent funding rather than 60 percent.

CHAPTER I. INTRODUCTION

The federal role as a provider of student assistance began with the GI Bill after World War II. It was extended with the passage of the National Defense Education Act in 1958, which provided student loans for the purpose of expanding the pool of educated manpower for an increasingly technological society. In the mid-sixties, concern was expressed that minority and lower-income students had much lower rates of college attendance. In response to this concern, the Congress passed the Higher Education Act of 1965. The act offered assistance primarily to students who otherwise might be unable to attend college. Over time, however, Congress expanded the scope of its legislation to help reduce the burden of college costs for middle-income students as well, culminating in the Middle Income Student Assistance Act of 1978. Not surprisingly, the expansion in scope led to great increases in federal costs. From a relatively modest $250 million in fiscal year 1965, federal spending for student assistance has increased more than 20 fold, to more than $5.2 billion in 1980.

The federal government provides student assistance through two types of programs: grant aid and self-help aid.[1] Until two years ago, the grant aid focused primarily on assisting the most needy students--that is, students who might not have been able to attend college without the grants. But the Middle Income Student Assistance Act (MISAA), passed in 1978, extended grant benefits to many middle-income students by lowering the amount that families are expected to contribute to their children's education.

Over the years, self-help aid has been used in two ways: to provide financial relief for middle-income students, and to provide students from lower-income families with sufficient resources to make up the difference between what they receive in grants and the remainder of their educational expenses.

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1. Self-help aid makes funds available to students as pay for part-time work or as loans to be repaid at a later date.

In addition to these forms of financial assistance, the federal government has also developed programs designed to encourage, motivate, and prepare pre-college students to continue their education beyond high school. Virtually all of this effort focuses on students from disadvantaged backgrounds.

This year the Congress will make decisions that will define the future role of the federal government in postsecondary education. The authorization for the Higher Education Act expires at the end of fiscal year 1980. Funding levels for the various programs in fiscal year 1981 will also need to be established.

This paper addresses issues central to these two sets of decisions. Chapter II examines the problems currently addressed by federal postsecondary education policies, and the effectiveness of the policies themselves. Chapter III analyzes federal student grant programs--how these programs evolved, who they serve, and possible options for the future, including current legislative proposals. Chapter IV focuses on federal student self-help programs--their structure, their beneficiaries, their costs, and the effects that certain legislative reforms might have on costs and beneficiaries. Chapter V deals with the services provided through the Special Programs for the Disadvantaged. Chapter VI examines the overall effects of proposed changes on the budget and on the distribution of benefits.

CHAPTER II. THE FOCUS AND IMPACT OF FEDERAL POSTSECONDARY EDUCATION POLICY

Federal postsecondary education policy has two dominant goals:

- o Promoting equality of educational opportunity for disadvantaged students;
- o Reducing the burden of college costs for students and their families.

PROGRESS SO FAR

Equality of educational opportunity, as measured by educational attainment, is not being achieved by the federal program. Students from economically disadvantaged backgrounds are still less likely than others to attend college and less likely to stay in college if they do attend. While it appears that federal student financial aid may have helped reduce the gap in enrollment between students from lower-income families and others, further increases in financial assistance (beyond increases to keep pace with inflation) may not lead to significantly greater educational attainment among disadvantaged youth. Rather, the major impediments to achieving equal educational attainment may lie elsewhere.

With respect to the second goal, that of reducing the financial burden on students, no compelling evidence exists as to whether, on average, students face a greater burden today than in the past. The success of the federal program is difficult to assess for lack of a single, agreed-upon indicator of reasonable financial burden, particularly one that distinguishes between magnitudes of burden over time. Using various indicators, however, the evidence appears mixed as to whether the burden of college costs has increased for the average student in recent years. While family incomes have generally kept pace with increasing average student charges, this is true only because a larger proportion of students have been attending lower-cost institutions. Indeed, for students wishing to attend specific types of institutions, average costs have increased

more rapidly than family incomes. Other factors, such as family size, the number of college-age children, and the number or age of family wage earners, affect family financial conditions, but their effects on family burden have also been mixed.

PROMOTING EQUALITY OF EDUCATIONAL OPPORTUNITY

Youth from lower-income families remain appreciably less likely to attend college than those from higher-income families, although the gap in attendance rates has narrowed during the last decade. In 1978, high school graduates aged 17 to 22 from families with incomes below $7,500 (in 1980 dollars) were only 79 percent as likely to be enrolled in postsecondary education as all high school graduates of that age group who remain dependent on their families for financial support.[1] The gap between enrollment rates for lower-income youth and all youth has, however, narrowed substantially. In 1968 a 17- to 22-year-old high school graduate from a family with income below $7,500 (in 1980 dollars) was only 65 percent as likely to be enrolled in postsecondary education as all high school graduates in the same age cohort, appreciably less than in 1978. This change has been brought about by a decline in the enrollment rates of other income groups rather than by an increase in low-income enrollment rates (see Table 1).

Students from poor and disadvantaged backgrounds also are less likely to remain in college once they have enrolled. Among 1972 high school graduates, 72 percent of those of lower socioeconomic background who enrolled in college returned for the second year of college, compared to 77 percent of those of

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1. The comparison is restricted to high school graduates because they are the only youth for whom postsecondary education is a viable option. To assure that the income comparison are of equivalent types of family units, this specific analysis is restricted only to dependent students (that is, those who remain reliant on their families for financial support), even though there may be important reasons why many of the independent youth have severed financial dependence from the nuclear family unit.

TABLE 1. PERCENT OF HIGH SCHOOL GRADUATES WHO ARE DEPENDENT FAMILY MEMBERS AGED 17-22 ENROLLED IN POSTSECONDARY EDUCATION, BY FAMILY INCOME, IN 1968-69, 1974, AND 1978 (INCOMES IN 1980 DOLLARS)

Income Range	1968-1969	1974	1978
$0- 7,499	35	33	34
$ 7,500-14,999	47	35	36
$15,000-19,999	47	37	41
$20,000-24,999	54	38	37
$25,000-29,999	56	42	41
$30,000-39,999	62	47	44
$40,000 +	76	63	60
All Dependent Students	54	44	43

SOURCE: U.S. Bureau of the Census, public use tapes of the March Series of the Current Population Survey. Prepared by James A. Sweet, Center for Demography and Ecology, University of Wisconsin.

NOTE: A family is defined as two or more persons related by blood, marriage, or adoption, and residing together. A dependent family member is a relative of the primary family head other than the spouse.

middle socioeconomic status who enrolled and 85 percent of the upper socioeconomic status enrollees.[2]

The Impact of Federal Efforts

Inequalities in college enrollment remain despite large increases in financial assistance for students from lower-income families and evidence that this financial assistance should make a difference.[3] Three explanations for the inequalities are examined below:

- Federal assistance, though substantial, has not been sufficient to remove financial barriers to college attendance for many lower-income youth.
- Students are ill-informed about the availability of student aid.
- Financial incentives do not work with many potential students because noneconomic factors are more important.

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2. William B. Fetters, George H. Duntleman, and Samuel S. Perry, Fulfillment of Short-term Educational Plans and Continuance in Education, National Longitudinal Study of High School Seniors (National Center for Education Statistics, 1977), Table 7. The socioeconomic status index was based upon a composite score involving five components: father's education, mother's education, parental income, father's occupation, and a household items index.

3. Based on past research, a $100 dollar decrease in net college costs in academic year 1979-80 could increase by up to approximately 1 percentage points the likelihood that youth from lower- or moderate-income families would attend college. The research also suggests that other, nonprice variables affect enrollment decisions. For more information see Gregory A. Jackson and George B. Weathersby, "Individual Demand for Higher Education," Journal of Higher Education, vol. XLVI, Nov/Dec 1975, pp.623-52. For a discussion of the effects of college costs on student enrollment, see also Michael S. McPherson, "The Demand for Higher Education," in David W. Breneman and Chester E. Finn, Jr., eds., Public Policy and Private Higher Education (Brookings, 1978), pp. 180-82.

Has Federal Assistance Been Sufficient to Remove Financial Barriers to College Attendance for Lower-Income Youth? The burden of college costs on lower-income families has changed relatively little over the last decade. Money incomes of lower-income families with children nearing college age, together with federal and state student aid, have risen as rapidly as average student charges.[4] For example, the burden on a family with income of $7,500 (in 1980 dollars) has changed relatively little during the last decade (see Table 2).

TABLE 2. PERCENT OF FAMILY INCOME NEEDED TO FINANCE COLLEGE IN 1969 AND 1978 FOR HYPOTHETICAL FAMILIES AT VARIOUS INCOMES (INCOMES IN 1980 DOLLARS)

	Public		Private	
	1969	1978	1969	1978
$ 7,500	26	26	56	58
$15,000	16	14	34	30
$25,000	10	9	21	20
$50,000	5	5	11	11

NOTE: College costs are assumed to equal average student charges minus average federal aid available for students in the $10,000 range in which the hypothetical income falls.

4. For families with children nearing college age (all families with children in the eleventh or twelfth grades), the incomes of the lowest quintile increased by 74 percent between 1967 and 1976, compared to increases of 90 percent, 95 percent, and 96 percent for the next three quintiles. During the same period of time the Consumer Price Index rose 71 percent, and average student charges rose 74 percent in the public sector and 84 percent in the private sector.

Many lower-income families, however, continue to provide much more than could reasonably be expected to send their children to college. In 1978, more than half of all undergraduate students from families with 1977 incomes below $6,000 reported that they received financial help from their parents, although almost none of these students would be expected to receive parental support under any existing needs analysis formula.[5] This suggests that financial need, as currently defined, has not been eliminated for these students. Further, it suggests that financial barriers to college attendance may still exist for youth from lower-income families that are unable to sacrifice as much to send their children to college.

Are Students Aware That Assistance Is Available? Do students and their parents know how much aid is available, and do they learn about this aid early enough for it to affect their enrollment and curricular decisions? Students must decide early in high school, generally in the ninth or tenth grade, whether they wish to pursue a college preparatory, vocational-technical, general academic, or less academically demanding high school curriculum. Yet at that point in their education they may be unaware of the level of financial assistance that will be available by the time they graduate from high school, and they may mistakenly foreclose future options that they wrongly perceive not to be financially viable. Unfortunately, little is known about the extent of this problem.

How Important Are Noneconomic Factors in Determining Whether Youth Attend College? Noneconomic factors appear to explain why many youth from lower-income families do not attend college even when financial assistance is available. Lack of adequate academic preparation impedes continued education for some. Lower-income students are less likely to complete high school, thus foreclosing the option of continuing their education. In 1978, 32 percent of all 18- to 24-year-olds from

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5. Preliminary data from responses to the student questionnaire of "Study of Program Management Procedures in the Campus-Based and Basic Grant Programs," conducted by Applied Management Sciences, Incorporated, for the USOE Office of Evaluation and Dissemination, shows that 56 percent of all undergraduate dependent students from families with incomes less than $6,000 received parental financial assistance for educational costs other than a spending allowance.

families with incomes under $10,000 had not graduated from high school, compared to 10 percent of 18- to 24-year-olds from families with incomes above that amount.[6] Furthermore, among students who do complete high school, youth from lower socio-economic backgrounds are less likely to perceive themselves as academically qualified to attend college; schooling for many has not been a successful or happy experience.[7] And among those who later drop out of college, nonfinancial factors such as low academic ability and low academic aspirations appear to be more dominant factors than family financial conditions.[8]

Other alternatives may compete with college for youth from lower-income families. For example, military service has traditionally attracted a disproportionately large number of college-age male youth from lower-income families, for whom the income and training available through peacetime military service may seem more beneficial than a college education.

REDUCING THE BURDEN OF COLLEGE COSTS

Some evidence suggests that the burden of college costs on the average student has not increased in recent years, while other data contradict this.

One indicator--the ratio of average student charges to family income--suggests that the burden has not increased. Over the last decade, college costs facing families with children nearing college age have declined as a percentage of income

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6. Derived from U.S. Bureau of the Census, "School Enrollment-Social and Economic Characteristics of Students: October 1978," Current Population Report, Series P-20, no. 346 (October 1979).

7. K. Patricia Cross, "Changing Students and the Impact on Colleges," presentation before the Education Staff Seminar, Washington, D.C., January 11, 1979.

8. Alexander W. Astin, Four Critical Years (Jossey-Bass Publishers, 1977), p. 108. For a more detailed discussion of dropout rates and references to other studies, see: Alexander W. Astin, Preventing Students From Dropping Out (Jossey-Bass Publishers, 1975).

either before or after tax (see Table 3).[9] This is so, however, only because a higher proportion of students are attending less expensive institutions, particularly two-year public community colleges. At many types of institutions, tuition and fees, taken alone, have increased more rapidly than either the Consumer Price Index or family incomes.[10] Cost increases have varied appreciably within both the private and public sectors. For example, from 1967 through 1977 among five groups of institutions, costs rose proportionally most rapidly in the Ivy League and the Seven Sisters and less rapidly at public institutions in the Pacific Eight, Big Ten, and Southeastern Conferences.[11]

Other conditions also affect the financial burdens facing potential college students and their families. For example, family income increased more rapidly than college costs partly because more families had two wage earners than in prior years. Between 1969 and 1978 the proportion of two-parent families with both parents working increased from 50 percent to 56 percent (see Table 4). This phenomenon was offset by an increase in the number of single-parent households from 13 percent in 1969 to 19 percent in 1978. Furthermore, factors other than income, such as family size and spacing of children, affected overall family financial conditions during the seventies. Children of college age were spaced more closely together in the late seventies than in the past, and thus were more likely to be in college at the

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9. These comparisons are with median incomes for families with eleventh and twelfth grade students. Focusing on families with children who are nearing college age, rather than on families with children in college, avoids the data loss occurring because many college-age youth are no longer enumerated in their nuclear family units.

10. See, Carol Frances Van Alstyne, Is There or Isn't There a Middle Income Crunch? (American Council on Education, 1979).

11. Unpublished data from Susan Nelson, Brookings Institution, 1978.

TABLE 3. FAMILY INCOME, BEFORE AND AFTER TAXES, AND STUDENT CHARGES, CALENDAR YEARS 1969, 1974, AND 1978

	1969	1974	1978	Percent Change 1969-78
Median Family Income for Families with Students Nearing College Age[a]				
Before taxes	9,984	14,418	19,221	92.5
After taxes	7,407-7,537	10,813-11,030	14,065-14,372	86.6-94.0
Average Student Charges				
Public	1,203	1,617	2,009	67.0
Private	2,530	3,386	4,477	77.0
Student Charges as a Percent of Income (before taxes)				
Public	12.0	11.2	10.5	-12.5
Private	25.3	23.5	23.3	-7.9
Student Charges as a Percent of Income (after taxes)				
Public	16.0 to 16.2	14.7 to 15.0	14.0 to 14.3	-10.6 to -13.6
Private	33.6 to 34.2	30.7 to 31.3	31.2 to 31.8	-5.4 to -8.8
Consumer Price Index	109.8	147.7	195.4	78.0

SOURCE: Income data from March Series of U.S. Bureau of the Census Current Population Report. Tax data from Internal Revenue Service, Advisory Commission on Intergovernmental Relations, and published rates for Social Security taxes. Student charges from the National Center for Education Statistics.

a. Includes all families with children enrolled in the eleventh or twelfth grade of high school.

same time, creating a slightly greater short-term burden on their families.[12]

TABLE 4. DEMOGRAPHIC CHANGES AFFECTING FINANCIAL CONDITIONS OF FAMILIES WITH CHILDREN NEARING COLLEGE AGE IN 1969, 1974, AND 1978

	1969	1974	1978
Percent of Two-Parent Households with Both Parents Employed	50	52	56
Percent of Families with Two Parents Present	87	84	81
Percent of Families with No More than One Child of College Age at Any One Time	40	35	35
Percent of Families with at Least Three Children of College Age at the Same Time	20	23	24
Average Years During Which More than One Child Will Be of College Age	2.42	2.66	2.76

SOURCE: Percentages from March Series of U.S. Bureau of the Census Current Population Report (various years). Average years of overlap from David Goldberg and Albert Anderson, "Projections of Population and College Enrollment in Michigan, 1970-2000," Governor's Commission on Higher Education, Lansing, Michigan (July 1974).

12. David Goldberg and Albert Anderson, "Projections of Population and College Enrollment in Michigan, 1970-2000," (a sponsored research project of the Governor's Commission on Higher Education, Lansing, Michigan, July 1974).

The Impact of Federal Efforts

Federal efforts have helped prevent the burden on the average family from increasing. On a per capita basis, federal aid to middle- and upper-income students increased from 1969 to 1978. The aggregate amount of aid to families with incomes above $20,000 (in 1980 dollars) increased 200 percent in real terms from 1969 to 1978, while the number of undergraduate students from families with incomes above $20,000 increased less than 10 percent. When one subtracts from college costs the amount of aid received through the three federal campus-based programs and the Basic Educational Opportunity Grants program, the percent of family income required from middle-income families changed very little from 1969 to 1978 (see Table 2, page 7).

LIKELY CHARACTER OF THESE PROBLEMS IN THE NEAR FUTURE

The extent to which the problems of unequal educational opportunity and burdensome college costs remain problems, and thus the focus of future federal postsecondary education policy, depends in large part on changing demographic and economic factors.

A number of demographic changes will affect college attendance patterns in the near future. Most significantly, there will be fewer youth arriving at college age because the postwar baby boom has peaked and the size of the college age cohort is now declining. By 1982, college enrollments are expected to begin declining. Full-time enrollments, in fact, began declining in 1978.

The declining number of college-age youth has several implications for postsecondary education. First, the trend noted in the seventies toward the closer spacing of children will subside. Overlap among siblings reached its peak at 2.8 years in 1975. By 1981 it is projected to decline to 2.6 years, and by 1985 to 1.9 years.

Other demographic trends will also affect the nature of higher education programs and the need for federal assistance. While the total number of college-age youth will decline, the proportion from educationally disadvantaged backgrounds will increase. By year 2000, minority students may represent one-fourth of the total enrolled college population, a fivefold

increase from 1960.[13] Married couples, on average, are delaying parenthood longer than in the past; parents' age at the birth of their first child increased by approximately two years in the sixties, which is the time during which today's college age youth were born.

If current federal postsecondary policy is maintained, these demographic changes will alter its scope. The increasing proportion of youth from lower-income backgrounds will maintain the demand for need-based assistance. Declining numbers of middle-income dependent students, less sibling overlap, and smaller family size will tend to reduce the burden on many families. Furthermore, because parents will be slightly older, on average, and thus at a higher point in their life-time earnings profile when their children go to college, family financial conditions will be improved. In sum, these changes should reduce the demand from many families for student financial assistance. Most notably, they should reduce the demand for student loans, as well as eligibility for the need-based grants available to middle-income students under the Middle Income Student Assistance Act.

But current policy may not endure. The federal focus may change to address new needs presented by the altered composition of college enrollments. More federal attention may be directed to nontraditional students--those who are older or who are enrolled part-time. Additional assistance may be needed to eliminate the financial and nonfinancial barriers confronting the increasing proportion of students from disadvantaged backgrounds.

Some are already arguing that budgets cannot be cut as enrollments decline because of the high fixed costs associated with tenured faculty and maintenance of facilities. Thus, college costs per student may increase appreciably in the future, particularly if federal student aid increases enough to allow institutions to increase their tuition charges without raising the net cost for students. This trend toward higher average student costs may change if some colleges close down. If, as is generally expected, declining enrollments force the closing of a number of relatively small private liberal arts

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13. Carnegie Council on Policy Studies in Higher Education, Three Thousand Futures (Berkeley, 1980).

colleges--which generally have higher than average costs--overall average costs will not grow as rapidly. But closings are likely to affect less than 2 percent of all capacity, so will have only minimal impact.[14] To some extent current cost levels could be stabilized in the public sector by maintaining enrollments in some institutions while closing others. Few states, however, seem disposed to pursue this course of action.

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14. Robert D. Behn, in "The End of the Growth Era in Higher Education," a working paper from Duke University's Center for Educational Policy prepared for the Senate Committee on Labor and Human Resources (June 7, 1979), estimates that 200 small, lower-quality colleges with 100,000 to 150,000 students will close.

CHAPTER III. FEDERAL GRANTS TO STUDENTS--OPTIONS FOR REAUTHORIZATION AND FUNDING

Federal grants to students increased greatly in fiscal year 1979, and their scope also changed. Until 1979, most of the benefits from the three major programs--Basic Educational Opportunity Grants (BEOGs), Supplemental Educational Opportunity Grants (SEOGs) and State Student Incentive Grants (SSIGs), went to students from lower-income families. But the Middle Income Student Assistance Act (MISAA) of 1978 expanded the BEOG program to reach 47 percent more students, mostly from middle-income families. The Congress increased benefits for BEOGs by over 50 percent in 1979. It also increased the funding for SEOGs by 26 percent in 1979.

The Congress is now considering various proposals that would alter both the costs and the benefits of the grants programs. Most of the attention has focused on Basic Educational Opportunity Grants, the largest federal student grant program.

THE BEOG PROGRAM

Basic Educational Opportunity Grants, established in 1972, provide grants to undergraduate students enrolled at least half-time in college or postsecondary vocational/technical schools. The level of a grant varies, depending on the contribution to college expenses that can be expected from a student's family. The major determinant of expected contribution is a family's discretionary income--that is, its gross income minus a family living allowance.[1] In fiscal year 1980 (academic year 1980-81), approximately 82 percent of the benefits will go to students from families with incomes below $15,000, with 71

1. The OMB Poverty Threshold (also frequently referred to as the Orshansky index) currently is used to determine the family living allowance.

percent of the recipients coming from these families (see Table 5).[2]

The costs of the BEOG program, as well as eligibility for it, depend on the amount of the family contribution required. Lowering the percentage of family discretionary income that is judged to be available obviously increases the size of the average award and makes more students eligible as well. The current law stipulated a 10.5 percent assessment rate on discretionary income for families with dependent students. In 1980, 33 percent of each dependent student's income in excess of $2,700 will be included in the family contribution--the first time such income has been included. Self-supporting (independent) students with dependent children or spouses are expected to contribute 25 percent of their discretionary income, and those having no dependents 75 percent.

The expected contribution also varies with family assets. Currently, a family may exclude $25,000 of its assets ($50,000 of farm or business assets) from assessment, contributing 5 percent of its remaining assets. Self-supporting students with children have the same exclusion and assessment rates, while other self-supporting students are expected to contribute one-third of their assets to college costs.

The expected family contribution interacts with other program parameters to establish grant eligibility. Two program parameters--the maximum award, currently at $1,800, and the proportion of a student's education costs that can be covered by grants, which currently cannot exceed 50 percent of costs--greatly affect who receives BEOGs, how much they receive, and how much the program costs the federal government.

OPTIONS FOR REAUTHORIZATION AND FUNDING

For fiscal year 1981, the Congress has a wide array of options available that would alter both the costs and the emphasis of the Basic Grants program.

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2. Income is defined in this analysis of the BEOG program as the adjusted gross income of the family head and spouse. Adjusted Gross Income (AGI) includes earned income, interest and dividend income, and taxable pensions, minus various adjustments to income.

TABLE 5. BASIC EDUCATIONAL OPPORTUNITY GRANTS PROGRAM, DISTRIBUTION OF BENEFITS AND RECIPIENTS IN FISCAL YEARS 1980 AND 1981 USING CURRENT PROGRAM PARAMETERS: BENEFITS IN MILLIONS OF DOLLARS, RECIPIENTS IN THOUSANDS

Parents' Adjusted Gross Income (in 1980 dollars)	1980		Current Level of Services in 1981	
	Amount	Percent	Amount	Percent
0-14,999				
Benefits	2,070	82	2,186	85
Recipients	1,882	71	1,894	75
15,000-29,999				
Benefits	404	16	335	13
Recipients	671	26	540	21
30,000 +				
Benefits	50	2	40	2
Recipients	79	3	91	4
TOTAL				
Benefits	2,524	100	2,561	100
Recipients	2,632	100	2,525	100

SOURCE: The data for this analysis have been generated from the CBO Student Assistance Cost Simulation Model. Preliminary program data on the number of recipients and qualified eligible applicants for fiscal year 1979 were used to establish participation levels by income class. Participation rates for subsequent years were assumed to be the same as those estimated for 1979.

Some options, such as the proposal included in the House's reauthorization bill (H.R. 5192), would significantly expand the program. It would provide higher benefits both to increase equality of educational opportunity and to reduce the burden for middle-income students, and as a result costs would also go up significantly.

Other options, including the Administration's reauthorization proposal, would essentially maintain the current distribution of benefits. The emphasis would remain on enhancing equality of educational opportunity, although middle-income students would retain the increased benefits that resulted from MISAA.

Proposals to reduce federal costs have received increased attention as federal budget constraints have tightened. These are generally presented in concert with efforts to retarget benefits on students having the greatest financial need, thus preserving the federal commitment to equality of educational opportunity. Budget reduction strategies generally decrease the recent emphasis on reducing the burden of college costs for middle-income students; this goal is generally perceived to be secondary to that of enhancing equality of educational opportunity. Among the possible options are the following:

- o Preserving the status quo;
- o Adopting H.R. 5192, passed in the House, which would significantly expand the program;
- o Adopting the Administration's proposal to raise the maximum grant level to $1,900;
- o Simplifying the needs analysis system;
- o Retargeting the program on the most needy students, through new authorizing legislation, thus reducing the program's scope;
- o Providing less than full funding for the program in appropriations, thus reducing the level of benefits.

Each of these options is discussed below.

Maintaining the Status Quo

In its current form, the BEOG program would provide $2.6 billion to 2.5 million students in fiscal year 1981 (see Table 5). Costs would be 1 percent higher than in 1980, but 4 percent fewer students would receive awards. If the eligibility criteria and program parameters remained unchanged in fiscal year 1981, 85 percent of the BEOG benefits would go to students from families with incomes below $15,000, a slight increase over 1980. Despite a 6 percent increase in the average award, most

families would have to contribute a slightly larger portion of their discretionary income to college costs in fiscal year 1981 than in 1980 (see Table 6).

TABLE 6. THE FAMILY BURDEN: STUDENT COSTS IN EXCESS OF BEOG ASSISTANCE AS A PERCENT OF FAMILY DISCRETIONARY INCOME, BY TYPE OF COLLEGE, FISCAL YEARS 1980-1981

Adjusted Gross Income (in 1979 dollars)	Public Two Year		Public Four Year		Private Four Year	
	1980	1981	1980	1981	1980	1981
$10,000	78	91	110	137	250	302
$15,000	26	30	40	45	82	90
$20,000	20	22	28	31	54	58
$25,000	17	19	23	25	42	44

SOURCE: Bill Sanda, "An Analysis of the Effects of Increasing the Basic Educational Opportunity Grant (BEOG) Maximum Grant Level Over The Amount Authorized In Current Law," Congressional Research Service (1980).

Generally, maintaining the program in its current form--that is, not altering such factors as the maximum award or the assessment rate on discretionary income--decreases program costs over time, because the effects of increasing family incomes more than offset those of increasing college costs and increasing family living allowances. In fiscal year 1981, however, two factors will prevent program costs from diminishing: First, family incomes are not expected to grow as rapidly as college costs.[3] Second, participation may continue increasing as more middle-income students become aware that MISAA (first implemented in 1979) makes them eligible for grants.

3. Family incomes in 1980 (the income reported by 1981 BEOG applicants) are projected to rise more slowly than in the past because of anticipated higher levels of unemployment.

Adopting H.R. 5192

H.R. 5192, passed by the House of Representatives on November 3, 1979, would provide $1.3 billion more BEOG benefits than the current program in 1981, a 52 percent increase (see Table 7). About half of the new funds would go to students from families with incomes below $15,000. The distribution of benefits to students attending different kinds of schools would change very little.

H.R. 5192 would change the current BEOG program in five ways.

- The maximum grant would be increased from $1,800 to $1,980 in 1981, $2,160 in 1982, $2,340 in 1983, and $2,520 in 1984.

- The proportion of college costs covered by BEOGs would be increased from 50 percent to 55 percent in fiscal year 1981, 60 percent in fiscal year 1982, 65 percent in fiscal year 1983, and 70 percent in fiscal year 1984.

- In computing the family contribution the exclusion of the value of the family home would be extended to the full amount of equity rather than the current $25,000 limit, but the limit on other assets would be reduced from $25,000 to $10,000.

- Self-supporting students with dependent children would be expected to contribute the same level of discretionary income to their education costs as families with dependent students.

- The cost allowance for books would be increased from $400 to $600.

Each of these changes affects the cost and distribution of benefits (see Table 8). The changes are discussed below, and the costs and benefits in 1981 are compared to those of extending the current program in 1981. (The total costs would be $131 million greater than the sum of their independent costs because of interaction between the changes.)

TABLE 7. BASIC EDUCATIONAL OPPORTUNITY GRANTS PROGRAM, DISTRIBUTION OF BENEFITS AND RECIPIENTS IN FISCAL YEAR 1981 UNDER CURRENT SERVICES AND UNDER H.R. 5192: BENEFITS IN MILLIONS OF DOLLARS, RECIPIENTS IN THOUSANDS

Parents' Adjusted Gross Income (in 1980 dollars)	Current Level of Services in 1981		H.R. 5192	
	Amount	Percent	Amount	Percent
0-14,999				
Benefits	2,186	85	2,861	74
Recipients	1,894	75	2,158	59
15,000-29,999				
Benefits	335	13	906	23
Recipients	540	21	1,263	34
30,000 +				
Benefits	40	2	120	3
Recipients	91	4	262	7
TOTAL				
Benefits	2,561	100	3,887	100
Recipients	2,525	100	3,683	100

SOURCE: See Table 1, page 19.

Increasing the Maximum Eligibility Index. Increasing the maximum award from $1,800 to $1,980 would provide $390 million more in benefits in 1981, a 15 percent increase. It would add 245,000 recipients, a 10 percent increase. Program costs would continue to increase in subsequent years, to an estimated $5.1 billion by fiscal year 1984.

Students from families with incomes above $15,000 would receive approximately one-third of the increased money and three-quarters of the additional number of grants.

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TABLE 8. INCREMENTAL CHANGES IN BENEFITS AND RECIPIENTS FOR EACH CHANGE TO THE BEOG PROGRAM PROPOSED IN H.R. 5192, BY INCOME GROUP: BENEFITS IN MILLIONS OF DOLLARS, RECIPIENTS IN THOUSANDS, FISCAL YEAR 1981

Proposed Change	$0-14,999		15,000-29,999		30,000		Total
	Amount	Percent	Amount	Percent	Amount	Percent	All Groups
Increasing the Minimum Award to $1,980							
Benefits	247	63	118	30	25	7	390
Recipients	64	26	128	52	53	22	245
Increasing the Percent of Costs by BEOGs from 50% to 55%							
Benefits	58	84	11	16	0	0	69
Recipients	0	--	0	--	0	--	0
Excluding Home Equity from Assessment but Reducing the Asset Exclusion to $10,000							
Benefits	146	53	113	41	17	6	276
Recipients	118	38	150	48	45	14	313
Reducing the Assessment Rate for Self-Supporting Students with Dependent Children to 10.5 Percent							
Benefits	164	41	224	57	7	2	395
Recipients	110	23	361	74	17	3	488
Increasing the Book Allowance from $400 to $600							
Benefits	51	78	14	22	0	0	65
Recipients	12	52	10	44	1	4	23

NOTE: The incremental changes are independent effects of each change compared to extending the current program to fiscal year 1981. The sum of the independent effects is not equal to their combined effect on current policy because of interaction between the various changes that is not captured when they are examined singly.

Students attending higher-cost institutions would benefit disproportionately. With an increase in the maximum grant to $1,980, 31 percent of the additional benefits would go to students attending private institutions, compared to 26 percent under the current program. The proportion of new recipients attending private schools would be 27 percent compared to 25 percent under the current program (see Table 9). Four-year institutions would receive a slightly higher proportion of the new funds than they have in the past, and students attending two-year colleges would receive a slightly smaller proportion (see Table 9). These estimates, based on the current distribution of students in various types of institutions, do not assume any change in the distribution from increasing the grant eligibility levels. All else being equal, however, some students might be expected to attend higher cost schools as their financial aid increased. On the other hand, it is not clear how much of any increase in BEOG awards would result in lower net student costs and how much would simply be substituted for nonfederal sources of student aid, resulting in no overall change in net costs for students and their families.

Increasing the Proportion of College Costs Covered by BEOGs. Increasing the percent of college costs that can be covered by BEOGs from 50 to 55 would provide $69 million more in benefits in 1981 (a 3 percent increase). Benefits would increase for students with relatively high assessed need whose awards currently are constrained by the half-cost provision because they attend relatively low-cost institutions (that is, where the student budget is less than $3,600). Nearly all of the increase in benefits (84 percent) would accrue to students from families with incomes under $15,000. Furthermore, most of the additional funds (95 percent) would go to students attending public schools. Students attending two-year colleges would receive 51 percent of the benefits as compared to 26 percent under the current program.

Again, these estimates do not allow for changes in students' decisions whether or where to attend college, although some effects could be expected. For example, loosening the half-cost provision would lower the net price of low-cost institutions, which could have two enrollment effects; it could induce some lower-income students to attend low-cost rather than high-cost institutions, and it could induce some lower-income students to attend college who otherwise might not continue into postsecondary education.

TABLE 9. BASIC EDUCATIONAL OPPORTUNITY GRANTS PROGRAM: PERCENT DISTRIBUTION OF ADDITIONAL BENEFITS AND RECIPIENTS, BY TYPE OF INSTITUTION ATTENDED, FOR EACH CHANGE PROPOSED IN H.R. 5192, COMPARED TO THE CURRENT PROGRAM

Option	Public	Private	Two-Year Collegiate	Four-Year Collegiate	Vocational Technical
Current Program Extended to 1981					
Benefits	74	26	26	61	13
Recipients	75	25	28	60	12
Incremental Effects of H.R. 5192					
Increasing Maximum Grants to $1,980					
Benefits	69	31	17	70	13
Recipients	73	27	24	65	11
Increasing Proportion of Costs Covered from 50% to 55%					
Benefits	95	5	51	41	8
Recipients	--	--	--	--	--
Eliminating Home Equity and Reducing Assets Exclusion of $10,000					
Benefits	76	24	29	63	8
Recipients	75	25	31	60	9
Reducing Assessment on Income for Self-Supporting Students with Children from 40% to 10.5%					
Benefits	70	30	22	51	27
Recipients	70	30	24	50	26
Increasing the Book Allowance from $400 to $600					
Benefits	95	5	52	42	6
Recipients	82	18	18	76	6

Excluding Family Home Equity from the Expected Family Contribution. H.R. 5192 would exclude all equity in the family home from consideration in assessing family financial need; but at the same time it would reduce the exclusion for other, more liquid, assets from $25,000 to $10,000. These two changes would increase benefits by $276 million (an 11 percent increase). An additional 313,000 students would receive BEOGs (an increase of 12 percent).

This change would affect three groups of students. First, approximately $110 million of the increased benefits would go to recipients whose awards had been reduced because of an expected contribution from home equity.[4] Second, eligibility would be expanded to include students who were previously ineligible solely on the basis of the equity their family had in a home. Third, some students, from families with little or no home equity but liquid assets in excess of $10,000 would receive smaller awards or no awards at all because less of their liquid assets would be excluded from consideration in determining the expected family contribution. For example, a family with no home equity but with $20,000 in other assets would receive $500 less than under the current program. On the other hand, a family with reported home equity of $20,000 and $20,000 in other assets would receive $250 more.

The net effect would be to distribute slightly less than half of the increased benefits to families with incomes above $15,000. But because families with incomes above $15,000 have more assets, particularly more equity in their homes, their average benefit would increase the most. The average award for a student from a family with income under $15,000 would increase only $5, compared to $17 for students from families with incomes above $15,000. More than 60 percent of the new recipients would be from families with incomes above $15,000.

Reducing the Expected Contribution from Discretionary Income for Self-supporting Students with Families. H.R. 5192 would reduce the assessment rate on discretionary income for self-supporting (independent) students having dependent children from 25 percent to 10.5 percent--equal to the present rate for families with dependent students. Benefits for such would

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4. Cost estimates from: Charles Byce, The Treatment of Home Equity, A Note from the College Board (Washington, D.C., August 1979).

increase $395 million (by 15 percent), and an additional 488,000 students would receive BEOGs (a 19 percent increase in total participation). More than half of the increased benefits (58 percent) would go to those with incomes above $15,000.

Students attending private institutions would receive 4 percent more of the new benefits than under the current program, and 5 percent more of the new recipients would be enrolled in private schools. Vocational-technical school students would receive 14 percent more of the new benefits, and 14 percent more of the new recipients would be in the vocational sector.

The more liberal treatment of self-supporting students might encourage some additional students to sever parental financial ties, although the relatively long period of time that students must be financially independent to qualify as self-supporting (approximately two years) would discourage them from doing so only to qualify for increased financial aid.

Increasing the Cost Allowance for Books. Increasing the cost allowance for books from $400 to $600 would increase benefits by an additional $65 million in fiscal year 1981. It would increase the number of recipients only slightly, and help only students from lower-income families attending low-cost institutions. Because their awards currently are constrained by the half-cost limit on BEOG awards, an increase in the book allowance would increase the overall budget, thus raising the half-cost limit.

Adopting the Administration's Proposal to Raise the Maximum Award

The Administration proposes increasing the maximum BEOG from $1,800 to $1,900. Normally this would increase costs by $168 million (6.6 percent) over the costs of extending the current program to fiscal year 1981. But because the Administration expects to reduce program fraud and abuse by $80 million in 1981, costs would increase by only $88 million over extending the current program (see Table 10). On average, awards would increase from $959 in 1980 to $996 in 1981, and 28,000 more students would receive awards (an increase of 1 percent). Grants, on average, would continue to cover approximately 27 percent of recipients' total educational costs. Without the increase, the percent of costs covered by basic grants would decline slightly to 26 percent.

TABLE 10. BASIC EDUCATIONAL OPPORTUNITY GRANTS PROGRAM: DISTRIBUTION OF BENEFITS AND RECIPIENTS IN 1981 UNDER CURRENT SERVICES AND UNDER THE ADMINISTRATION'S PROPOSAL TO RAISE THE MAXIMUM AWARD: BENEFITS IN MILLIONS OF DOLLARS, RECIPIENTS IN THOUSANDS

Parents' Adjusted Gross Income (in 1980 dollars)	Current Level of Services in 1981		Administration's Proposal	
	Amount	Percent	Amount	Percent
0-14,999				
Benefits	2,186	85	2,217	84
Recipients	1,894	75	1,929	73
15,000-29,999				
Benefits	335	13	382	14
Recipients	540	21	614	23
30,000 +				
Benefits	40	2	50	2
Recipients	91	4	117	4
TOTAL				
Benefits	2,561	100	2,649[a]	100
Recipients	2,525	100	2,660	100

SOURCE: See Table 1, page 19.

a. Assumes $80 million in savings from reduced fraud and abuse anticipated by the Administration.

Simplifying the Needs Analysis System

Simplifying the BEOG needs analysis would make it easier to apply for grants. It would also help potential college students to determine in advance how large a grant they would likely receive if they decided to continue their education beyond high school. This could be a deciding factor for some young people. Adopting a simplified needs analysis would have the negative effect of eliminating many of the current checks and balances. Some students not in need of financial assistance would qualify under a simplified analysis, whereas some who need assistance would not qualify.

It would be possible to simplify the needs analysis system to fit virtually any desired budget constraint and distribution of benefits. The prime beneficiaries would be students whose awards had previously been reduced by whatever criteria were eliminated in the simplified analysis. On the other hand, students who had benefited from criteria no longer extant would lose benefits.

One option, for example, would be to base grants solely on two criteria--family income and family size, much as the federal income tax system does. This would reduce the length and complexity of the application process, and make it possible for prospective students to determine approximately what size of grant they could expect to receive. Studies have shown that the process could be significantly simplified without appreciably altering the distribution of benefits.[5] Eliminating assets from consideration would increase the eligibility of farmers and homeowners who currently receive less because of the value of their assets. Thus, the family contribution from discretionary income would have to be slightly higher than at present to maintain the same program cost. The change would have relatively little effect on students whose families have no discretionary income to contribute in the first place. All other families without substantial assets would have to contribute slightly more. Middle-income families, who typically own their own homes, would benefit the most. This apparent inequity in the redistribution of benefits could be remedied by redesigning the expected family contribution schedule to increase progressively with family discretionary income, much as the federal income tax does.

Retargeting the BEOG Program on the Most Needy Students through Legislation

Costs could be reduced by retargeting the program on the most needy students. One option would be to reimpose the pre-MISAA assessment rates on discretionary income (20 percent of

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5. See J.L. Bowman and W.D. Van Dusen, "An Analysis of College Scholarship Service Contributions Under Alternative Assumptions: The Effects of Simplification," Prepared for the College Scholaship Service (1975); and Dwight Horch. "Streamlining Calculations of Parents' Contribution Through Stepwise Regression Analysis: A Preliminary Investigation," Educational Testing Service (1975).

the first $5,000 of discretionary income and 30 percent of all remaining discretionary income). This would reduce program costs to $2.1 billion in fiscal year 1981, $444 million less than under the current program (see Table 11). Approximately 600,000 fewer students would receive benefits. Most of the reduction in benefits (64 percent) would occur among students from families with incomes above $15,000.

TABLE 11. BASIC EDUCATIONAL OPPORTUNITY GRANTS PROGRAM, DISTRIBUTION OF BENEFITS AND RECIPIENTS IN FISCAL YEAR 1981 UNDER CURRENT SERVICES AND UNDER A REDUCTION AND RETARGETING OF BEOG FUNDING: BENEFITS IN MILLIONS OF DOLLARS, RECIPIENTS IN THOUSANDS

Parents' Adjusted Gross Income (in 1980 dollars)	Current Level of Services in 1981		Reduced Assessment Rates	
	Amount	Percent	Amount	Percent
0-14,999				
Benefits	2,186	85	2,026	96
Recipients	1,894	75	1,757	92
15,000-29,999				
Benefits	335	13	89	4
Recipients	540	21	155	8
30,000 +				
Benefits	40	2	2	0
Recipients	91	4	2	0
TOTAL				
Benefits	2,561	100	2,117	100
Recipients	2,525	100	1,914	100

SOURCE: See Table 1, page 19.

Providing Less Than Full Funding

One way of cutting the costs of the BEOG program would be to reduce appropriations for it. There is precedence for this: the program has been fully funded in only four of its eight years. Whenever the program is not fully funded, awards are reduced using scheduled reduction formulas provided in the authorizing legislation. Two options for scheduled reduction are examined below:

- Scheduled reduction as in the current law;
- Scheduled reduction as in H.R. 5192.

Scheduled Reduction as in Current Law. Using the scheduled reduction formula in the current law could reduce program costs by as much as $250 million in fiscal year 1981--to $2.3 billion, with a 10 percent decrease in benefits (see Table 12). The formula would reduce the level of most awards but not the number of recipients, because it requires that all eligible students receive some portion of their awards. It provides that:

- All students eligible for entitlements exceeding $1,600 would receive the full amount of the entitlement;
- All students eligible for entitlement exceeding $1,200 but not greater than $1,600 would receive 90 percent of the entitlement;
- All students eligible for entitlements exceeding $1,000 but not greater than $1,200 would receive 75 percent of the entitlement;
- All students eligible for entitlements exceeding $800 but not greater than $1,000 would receive 70 percent of the entitlement;
- All students eligible for entitlements exceeding $600 but not greater than $800 would receive 65 percent of the entitlement; and
- All students eligible for $600 or less would receive 50 percent of the entitlement.

TABLE 12. BASIC EDUCATIONAL OPPORTUNITY GRANTS PROGRAM, DISTRIBUTION OF BENEFITS AND RECIPIENTS IN FISCAL YEAR 1981 UNDER CURRENT SERVICES AND UNDER REDUCTIONS SCHEDULED IN CURRENT LAW AND IN H.R. 5192: BENEFITS IN MILLIONS OF DOLLARS, RECIPIENTS IN THOUSANDS

Parents' Adjusted Gross Income (in 1980 dollars)	Current Level of Services In 1981		Reductions in Current Law		Reductions in H.R. 5192	
	Amount	Percent	Amount	Percent	Amount	Percent
0-14,999						
Benefits	2,186	85	2,046	89	2,412	94
Recipients	1,894	75	1,904	75	1,830	87
15,000-29,999						
Benefits	335	13	242	10	146	6
Recipients	540	21	550	21	270	13
30,000 +						
Benefits	40	2	23	1	3	0
Recipients	91	4	91	4	8	0
TOTAL						
Benefits	2,561	100	2,311	100	2,561	100
Recipients	2,525	100	2,545	100	2,108	100

SOURCE: See Table 1, page 19.

A full scheduled reduction would lower awards for approximately three-quarters of all recipients; only students with the greatest amount of assessed financial need would receive their full entitlement. Average awards for students from families with incomes under $15,000 would decline approximately $80 or 7 percent. Average awards for students from families with incomes above $15,000 would decline approximately $179 or 30 percent.

Scheduled Reduction as in H.R. 5192. H.R. 5192 would impose a different scheduled reduction formula if appropriations were insufficient for full funding. This scheduled reduction formula appears to be very effective in protecting benefits for students with the greatest assessed need. It would protect all awards within $200 of the maximum eligibility (proposed at $1,980 in fiscal year 1981). Awards for all other students would be reduced, with the amount of reduction inversely related to students' need. The extent to which awards would be reduced or eliminated would depend on the budget constraint. For example, if H.R. 5192 became law, but only enough funds were provided to fund the current program ($2.6 billion), costs would have to be reduced by $1.3 billion, a 34 percent decrease in benefits.[6] The number of recipients from families with incomes below $15,000 would decline by 3 percent, but grants for students from these families, on average, would be 14 percent higher than under the current program. The number of middle-income recipients from families with incomes greater than $15,000, however, would decline more than 50 percent from what would be provided under the current program and the level of benefits would decline from $375 million to $149 million (a 60 percent reduction).

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6. The scheduled reduction formula incorporated in H.R. 5192, and also proposed by the Administration would protect all awards within $200 of the maximum from any reduction, and would reduce all other awards on a progressively increasing reduction rate. The extent of the reduction formula (slope) determines the minimum award level (intercept) that will still remain eligible.

CHAPTER IV. STUDENT LOANS--OPTIONS FOR REAUTHORIZATION

The federal government will spend approximately $1.9 billion this year in subsidizing student loans through the Guaranteed Student Loan (GSL) and National Direct Student Loan (NDSL) programs. During 1980, these programs will provide 3 million loans amounting to more than $5 billion (more than 60 percent of all federal student assistance).[1]

The scope of the loan programs was drastically changed in 1978, when the Middle Income Student Assistance Act (MISAA) made all students eligible for in-school interest subsidies, under the Guaranteed Student Loan program--increasing the eligible population by one-third. Partly as a result of MISAA, in 1979 participants increased by 39 percent to 1.5 million students, and borrowing by 52 percent to $3.0 billion.

Unless current trends change, the amount of student lending and the federal cost of the programs will increase substantially in future years. At present, costs of the Guaranteed Student Loans are not controlled via the federal budget process; the federal government is obligated to pay all GSL lenders a special allowance for the capital they provide at below-market interest rates to students, and the federal government also guarantees the loans against defaults.

MAJOR STUDENT LOAN PROGRAMS

The two major student loan programs are the Guaranteed Student Loan program and the National Direct Student Loan program. The Guaranteed Student Loan (GSL) program subsidizes student loans that are provided by private and state lenders.

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1. Student assistance in this context refers only to the aid provided through the six major student assistance programs controlled by the Office of Education. It does not include such programs as Social Security and veterans' educational benefits.

An undergraduate is allowed to apply for up to $2,500 per year, though the total outstanding debt may not exceed $7,500. A graduate student may borrow up to $5,000 per year, but no more than $15,000 in total. All students enrolled at least half-time are eligible to borrow. The federal government pays interest charges while the student is in school and for up to a year afterward; interest of 7 percent is charged to the borrower thereafter. Loans are insured against default by the government, which also pays a special allowance to lenders on all loans outstanding. To encourage lenders to participate in the program, the Student Loan Marketing Association (Sallie Mae), a secondary market, was established in 1972 to purchase loans from and provide additional capital to lenders.

The National Direct Student Loan program provides low-interest loans to students. Eligibility is based on financial need. The participating institution determines the size of the loan, but the total debt cannot exceed $5,000 for an undergraduate or $10,000 for a graduate student. The loan is interest-free to the borrower while in school, but accrues interest at 3 percent afterward.

CHOICES IN DESIGNING A STUDENT LOAN POLICY

The Congress faces four issues in choosing alternative student loan policies:

- Who should be eligible for loans;
- What subsidies should be provided;
- Who should provide the loan capital; and
- What the repayment provisions should be.

The costs and effects of loan programs depend on the interaction of these factors.

Eligibility Criteria

In 1981, approximately 11 million students will be eligible for GSL loans--that is, all students enrolled half-time or

more.[2] Changing the rules for eligibility would affect the size and costs of the program in several ways.

For example, extending eligibility to all students, thus incorporating students enrolled less than half-time, would increase the number of eligible students by approximately 2.5 million. Part-time students, however, would not borrow as much, on the average, as the others. Furthermore, private lenders might be less willing to lend to them, since smaller loans yield lower special allowance payments to the lenders, making it difficult for them to recoup the costs of administering these loans. Thus, increasing eligibility would not necessarily increase the participation in the program if lenders were not prepared to make more capital available. It might even cause present recipients to receive less.

Making parents eligible to borrow in addition to students, which is proposed in many options currently being considered, would radically increase the eligible population of borrowers. The level of parental borrowing, however, would depend greatly on other factors, such as the extent of subsidies and the availability of capital. For example, as long as students receive appreciably greater subsidies than parents, families would be expected to borrow through the student program rather than through the parent program.

Restricting eligibility would clearly reduce participation and program costs. One way would be to reimpose an income cap or needs test in the GSL program. For example, limiting eligibility for the in-school interest-free subsidies to students from families with adjusted gross income below $40,000 would reduce the total eligible population to approximately 9 million. Eligibility could be reduced even more by imposing a more

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2. Prior to MISAA, all students enrolled half-time or more could borrow through the GSL program, but only students from families with adjusted family incomes under $25,000 (roughly equivalent to adjusted gross income of $30,000) received the in-school interest-free subsidy. In 1978, 8.5 million students, roughly 80 percent of all students enrolled half-time or more, were eligible for GSLs.

stringent financial needs test. For example, if the Basic Educational Opportunity Grants needs analysis was used to determine eligibility for highly subsidized loans, as suggested in one current legislative proposal, only 3.5 to 4.5 million students would be eligible.[3]

Eligibility also could be reduced by allowing only students in certain sectors of postsecondary education to receive subsidized student loans. For example, eliminating students attending vocational and technical school, would reduce the eligible population by approximately 2 million students. Without loans, however, many prospective vocational-technical students would find it difficult to finance their education. Another alternative would be to restrict eligibility to undergraduate students, eliminating approximately 1.4 million graduate students. For many, however, this would reduce the possibility of remaining in graduate school.

Types of Subsidies

Currently, borrowers benefit from two subsidies. First, loans are issued at low interest rates; and second, loans bear no interest during school enrollment and for a short grace period after leaving school. The interest rates have at times been below both the federal cost of money and the market rate of interest. The 3 percent NDSL rate was slightly less than federal borrowing rates during the early years of the program, whereas the 7 percent GSL rate was not appreciably different from the federal borrowing costs from 1971 to 1978. Currently, however, both the 7 percent GSL rate and 3 percent NDSL rate are below the 11 percent rate for federal notes of comparable maturity. They are even farther below commercial loan rates. On average the interest rate subsidy amounts to about 29 percent of the original amount borrowed for a GSL loan and 57 percent of the amount for a NDSL loan. Nevertheless, the subsidy is unlikely to affect either whether or where a student goes to

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3. The National Student Loan Reform Act (S. 1600), proposed by Senator Bellmon and Senator Kennedy, would restrict eligibility for highly subsidized loans to students with financial need as defined by the Basic Educational Opportunity Grants (BEOG) program formula for assessing students' need.

college, because it makes little difference in the size of future repayments. The difference, for example, between 3 percent and 7 percent interest is less than $2 per month in repayment on each $1,000 borrowed.

Student borrowers also receive a subsidy--about 21 percent of the original amount borrowed on a GSL or 9 percent on an NDSL--because their loans bear no interest while they are in school. This subsidy may have a more direct effect on behavior than the interest-rate subsidy. Students with considerable financial need would find it difficult to make interest payments while attending school. Without the option to defer interest payments, they would have to borrow more, or drop out of school or attend a less expensive institution. The subsidy, however, may also induce many students to borrow. For students from higher-income families, who have no financial need, the opportunity to borrow at zero interest is an attractive one. The rapid post-MISAA increases in borrowing suggest that many middle- and upper-income students have taken advantage of it.

Alternative Sources of Loan Funds

The federal government has a choice between funding the loans itself or paying someone else to do the lending. In the GSL program private and state lenders, and some institutions that are established lenders, are paid to provide capital for student loans. They receive a return of 3.5 percent more than the bond equivalency rate of the 91-day Treasury Bill. In the NDSL program, federal funds (referred to as federal capital contributions) are combined with repayments to institutional revolving loan funds to provide the new loan capital.

Securing Student Loan Capital from Nonfederal Lenders.

Paying nonfederal lenders to provide student loans is costly, though not necessarily more costly than providing the loans directly through a federal lender. The federal special allowance payment to GSL lenders in fiscal year 1981 will be more than $500 million, nearly one-third more than two years ago. Over the life of a typical GSL loan issued in 1981, this payment to the lender will amount to approximately $400 for each $1,000 borrowed.

This method can have unintended effects both on capital availability and on loan beneficiaries. Because the costs of originating, servicing, and collecting a large loan are not

appreciably greater than those for a small loan, lenders with a limited amount of capital have an incentive to provide larger loans to fewer students. Also, students with the greatest financial need are probably less able to secure loans from banks. Although recent increases in program activity suggest that this supply problem has probably diminished, it is not clear yet whether the additional loan capital is being disbursed to all students or concentrated primarily on the more attractive, higher-income borrowers.

State Lending. Some states have greatly increased the amount of capital available to students from state lenders, who are usually more accessible to students than private lenders. But in nearly all cases, the federal government incurs a double cost for loans provided by states: in addition to the special allowance payments, federal tax revenues are further reduced because most state lending is supported by the sale of tax-exempt bonds.

The annual volume of tax-exempt student loan bonds has increased dramatically in the last few years and amounted to about 20 percent of the annual volume of guaranteed student loans in 1979. The 20 states that issue tax-exempt student loan bonds earn sizable returns on the loans, because funds are raised at low, tax-exempt interest rates while the loans yield the same rate as student loans made by private financial institutions.[4]

Federal Lending. The federal government could provide student loans directly, instead of relying on private lenders. If these federal loans were provided as entitlements, the vagaries surrounding loan capital availability through private lenders would be eliminated. On the other hand, as the recent funding history of the NDSL program shows, loan availability could be quite uncertain if federal lending were subject to annual appropriations. Whether disbursed directly or through postsecondary institutions, federal lending could more efficiently direct loans toward achieving specific objectives.

The cost of providing loans directly, rather than through nonfederal lenders, depends on various factors, including fees for originating, servicing, and collecting loans as well as the

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4. For further information, see Congressional Budget Office, State Profits on Tax-Exempt Student Loan Bonds: Analysis and Options (March 1980).

federal borrowing or opportunity costs.[5] Over the full term, for example, it would cost 8 percent more to finance a $2,150 loan (approximately the average GSL amount projected for 1980) through federal lending than through paying a nonfederal lender to provide the loans.[6] Larger average loans would reduce this cost discrepancy because it costs no more to service large loans through a federal lender than small ones, whereas with nonfederal lenders the federal payments increase proportionately with the size of the loans. The converse is also true--smaller loans cost more per dollar loan when provided through direct federal lending. It is unlikely, however, that private lenders would readily provide smaller loans, because they yield very small returns.

Federal lending would also tend to reduce the size of an average loan by eliminating the perverse incentive for lending more to students than they need. If disbursed through campus financial aid offices, federally provided loans could be incorporated into students' aid packages, thus preventing excessive borrowing and keeping students better informed about their overall indebtedness. Furthermore, federal lending would ease loan consolidation, thus reducing administrative costs and allowing for better financial counseling of borrowers.

These estimates assume that federal lending would be managed effectively and efficiently. Skeptics, however, point to the difficulties experienced at the federal level with other student assistance programs.

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5. This analysis assumes an origination fee of $50 per loan, and servicing/collection costs of $12 per yer while students are in school, $18 per year during the grace period, and $27 per year while the loan is being repaid. All costs are inflated to reflect likely costs in future years.

6. This cost comparison is based on current CBO economic assumptions (as of March 1980); it assumes that an average borrower remains in school for two years after receiving a loan, is in grace for one year, and repays the loan in seven years. The relative costs, however, are quite sensitive to changes in the economy. A 1 percent decrease in the federal cost of borrowing would virtually eliminate the difference in overall financing costs.

Repayment Provisions

Most student borrowers repay their loans, and they do so within the original terms. Currently, approximately 93 percent of all GSLs that have entered repayment status are either in repayment or have been fully paid off. The comparable figure for NDSLs is about 83 percent. Some students default, either because they are unwilling or unable to repay or because efforts to collect the loans have been inadequate. Available evidence suggests that inadequate collection efforts by lenders, the federal government, and educational institutions have been a major factor in nonpayment of student loans. Over the last year and a half the federal government has greatly improved its efforts. Federal default collections increased from $16 million in 1978 to $41 million in 1979. Nevertheless, net federal costs for GSL defaults will still amount to $214 million in fiscal year 1980. No similar system has been implemented to collect defaulted loans insured through state guarantee agencies. In the NDSL program the federal government has agreed to collect defaulted loans for schools, and has accepted 238,000 defaulted loans from institutions. As yet, however, the anticipated system for collecting these loans has not been implemented, so relatively few of them (approximately 2 percent) have been paid off or brought into repayment.

Ways to Reduce Nonpayment of Loans. Although many of the current problems with program management are beyond legislative control, legislation can affect some aspects of it. For example, the current mix of student loan programs, in which a borrower may have loans from various lenders and under various terms, creates confusion for borrowers, counselors, and lenders. Difficulties would be reduced if all loans were provided through a single source. Legislation might also seek to prevent students from incurring heavy future debt burdens by limiting the amount that can be borrowed or by altering the repayment terms. Repayment terms might be adjusted to increase the length of repayment, or to make the terms dependent on the borrower's ability to pay.

Both of the current loan programs have limits on the amounts that may be borrowed, but they do not reckon with the different future earning potentials of the borrowers. What may be an unreasonable debt burden for one student may not be for another.

Increasing the term for repayment would increase both the amount the borrower has to repay and the cost to the federal government. The amount to be repaid would increase because the principal would be paid off less rapidly and greater interest charges would accrue. For example, lengthening the repayment term of a 7 percent loan from 10 to 15 years increases net repayments from $1,393 to $1,618 for each $1,000 borrowed, or by 16 percent. It increases federal costs because, if loans are provided through private capital, special allowance payments to lenders will be greater as the principal is repaid less rapidly. Under the current program, the federal cost for a 15-year term loan would be $864 for each $1,000 borrowed, an increase of $158 (22 percent) over the cost of a 10-year term loan. The cost for loans provided with federal capital would also increase, principally because loans would be serviced for a longer period. A 15-year loan would cost the federal government $1,011 to service, compared to $583 for a 10-year loan.

Another way to reduce the repayment burden would be to tie repayment terms to the borrower's ability to pay. Two options are income contingent loans and graduated repayment loans. Income contingent repayment schemes tie the amount paid to the borrower's income during repayment. Graduated repayment loans, in which payments are low in early years, offer a simpler alternative by not imposing the complexity and administrative costs associated with income-contingent repayment provisions. But in keeping initial repayments low, one must be careful not to create excessively high future repayments. Any constantly increasing graduated repayment scheme that appreciably reduces initial repayments must also appreciably increase future repayments, while any scheme that holds future repayments to only marginal increases will not reduce the initial repayment burden by much (see Figure 1). On the other hand, gradually increasing repayments only during the first few years of the loan can appreciably reduce the initial burden without imposing a serious burden in later years (see Figure 2). This approach, currently used in financing some home mortgages, allows borrowers a few years in which to become established.

COMPARISON OF STUDENT LOAN PROPOSALS

Several proposals for modifying or extending federal student loan programs are currently before the Congress. The proposals include:

Figure 1.

Effects of Linear Graduated Repayments (with Constant Slope) on Annual Payments

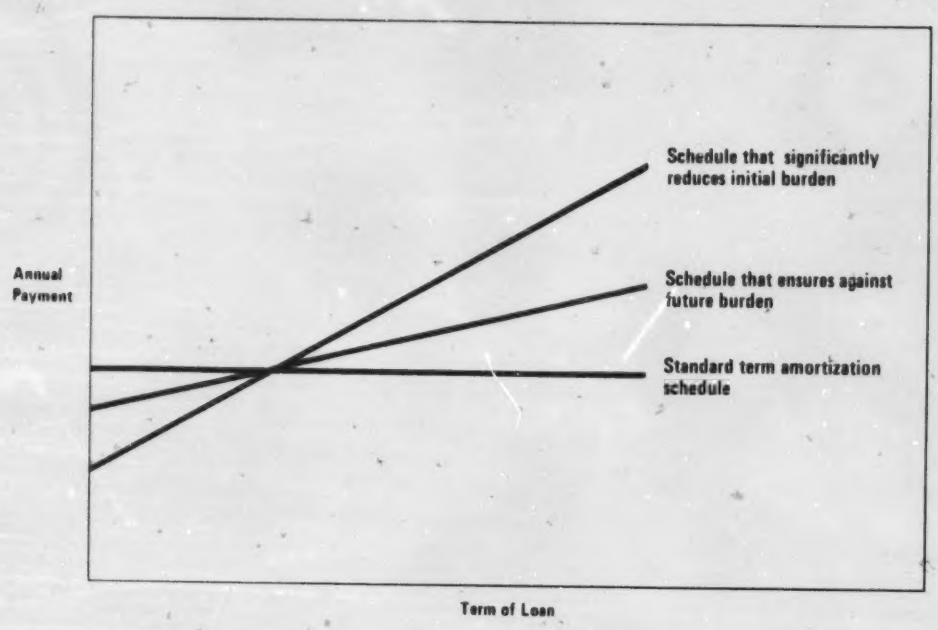
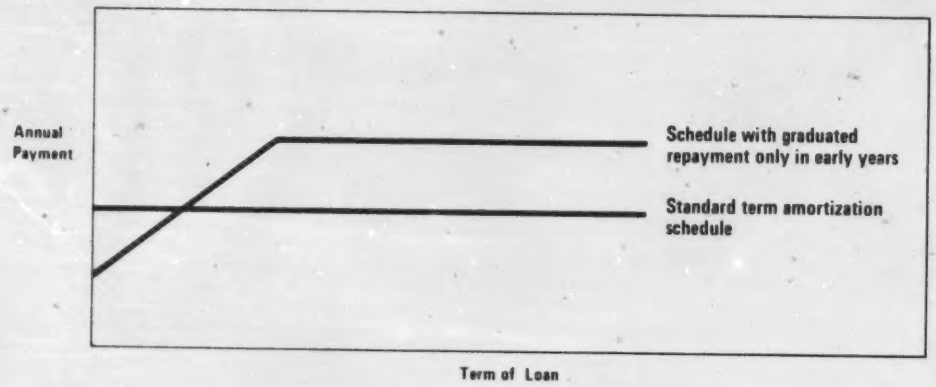

Annual Payment
Schedule that significantly reduces initial burden
Schedule that ensures against future burden
Standard term amortization schedule
Term of Loan

Figure 2.

Effect of Graduating Repayments Only in Early Years


Annual Payment
Schedule with graduated repayment only in early years
Standard term amortization schedule
Term of Loan

- Continuing the current programs, unaltered;
- H.R. 5192, passed by the House of Representatives, which would expand slightly eligibility for student loans;
- S. 1870, proposed by Senator Williams, which is an adaptation of H.R. 5192;
- S. 1600, the National Student Loan Reform Act, proposed by Senators Bellmon and Kennedy, which would retarget highly subsidized loans on students with measured financial need; and
- S. 1840, introduced on behalf of the Administration, which also would retarget highly subsidized loans on students with assessed need.

The proposals vary in their specifications as to who would receive loans, how many loans would be made, and how much they would cost. (Specific attributes of these proposals are outlined in Table 13.) Some, including H.R. 5192 and S. 1870, would continue or extend the current approach of providing highly subsidized loans to all students, thus maintaining a commitment to enhance the equality of educational opportunity and also to reduce the burden for middle- and higher-income students. Other proposals, such as S. 1600 proposed by Senators Bellmon and Kennedy, and S. 1840 proposed by the Administration, would focus loan subsidies on students with measured financial need, thus accentuating the commitment to enhance equality of educational opportunity while diminishing the commitment to reduce the burden on middle- and higher-income students. In reducing benefits, they would also reduce federal costs.

Costs and Effects of Maintaining the Current Program

The two existing programs (GSLs and NDSLs) would provide 3.0 million loans amounting to $5.8 billion in fiscal year 1981 (see Table 14). The first-year federal cost of new loans provided through the programs would be approximately $0.7 billion (see Table 15). Before being fully retired, these loans would cost the federal government $2.8 billion in 1981 dollars, or 48 percent of the original amount provided. The demand for need-based loans from lower- and middle-income students would amount to approximately $3.1 billion; thus slightly more than half of the benefits would go to students who currently qualify as having financial need.

TABLE 13. MAJOR COMPONENTS OF FIVE OPTIONS FOR STUDENT LOAN PROGRAMS

Program	Eligibility	Borrower Subsidies	Source of Capital and Associated Costs	CBO Assumptions
Current Programs	For GSLs, all students enrolled half time or more. For NDSLs, financially needy students enrolled half time or more. (Institution assesses need.)	Interest forgiven on both GSLs and NDSLs while students are in school or in one-year grace. GSLs in repayment bear 7 percent interest; NDSLs bear 3 percent interest.	For GSLs, capital provided by private and state lenders. Costs include special allowance payments to lenders, and revenue losses from sale of tax-exempt state bonds to support state lending. For NDSLs, capital provided from revolving loan funds, supplemented with federal capital contributions.	2.1 million students borrow $5.0 billion in guaranteed loans and 0.9 million students borrow $0.8 billion in direct loans. Overall, 3.0 million loans would provide $5.8 billion in fiscal year 1981.
H.R. 5192	For student loans, same as current programs. Parents eligible to borrow up to the difference between educational costs and available gift aid.	Same as current programs for student loans. Parent loans would bear 7 percent interest from the date of disbursement.	Same as current programs for student loans. Parent loans treated like guaranteed student loans.	Same as current programs for participation in NDSLs, and slight increase in participation in GSLs. 81,000 parents borrow $237 million in first year. Overall, 3.1 million loans would provide $6.2 billion in fiscal year 1981.

TABLE 13. (Continued)

S. 1870	For GSLs, all students enrolled in degree credit courses. NDSLs remain available only to students enrolled half time or more with assessed need. Parent eligibility the same as under H.R. 5192.	GSLs and parent loans the same as in H.R. 5192. Collectors could offer delinquent students an income-contingent loan plan rather than the straight 10-year repayment schedule. NDSL interest would increase from 3 to 7 percent.	Same as under H.R. 5192.	Borrowing for GSLs increases by 250,000 loans and $200 million to acccommodate less-than-half-time students. No change in borrowing level for NDSLs, but increased collections in out-years from increased interest charges. Overall, 3.4 million loans would provide $6.4 billion in fiscal year 1981.
S. 1600	In Tier I, students enrolled half time or more with assessed need could borrow up to the level of their unmet need. (Assessed need determined from the needs analysis formula for BEOGs.) In Tier II, students and parents could borrow up to expected family contribution.	In Tier I, for undergraduate students, in-school interest-free loans bearing 7 percent interest in repayment. No in-school subsidies for graduate students. Students could opt for graduated repayments rather than straight 15-year schedule. In Tier II, borrowers pay 1 percent less than the Treasury bill rate from the date of disbursement. Loans to be repaid within 10 years.	Capital for loans in Tier I provided directly by federal government through federal borrowing. Administrative costs include fees for loan origination and servicing. Capital for Tier II still provided through private lenders, requiring special allowance payments to lenders.	In Tier I, 1.8 million undergraduates borrow $3.1 billion; 160,000 graduate students (a decline of 50,000) borrow $0.5 billion. In Tier II, 565,000 loans amounting to $1.78 billion. Overall, 2.5 million loans would provide $5.4 billion in fiscal year 1981.

TABLE 13. (Continued)

S. 1840	For basic loans, students (other than professional students) enrolled half time or more with assessed need could borrow up to the level of their need. (Assessed need determined from Administration's proposed single needs analysis system including a required $700 self-help contribution by the student.) For supplemental loans, students and parents could borrow up to the cost of education minus other financial aid.	Basic loans, would bear no interest while in school or in grace, but would bear 7 percent interest during repayment. Students could select repayment terms up to 20 years. Supplemental loans would have interest rate of T-bill + 1 percent from issuance, though repayment could be deferred. Repayment terms up to 20 years.	Capital for basic loans provided by federal government through appropriations for full capital requirement. Administrative costs include fees for loan origination and servicing. Capital and supplemental loans provided through private lenders, requiring special allowance payments of 2.5 percent to lenders.	For basic loans, in 1981, 1.1 million undergraduates borrowing $0.8 billion; 0.1 million graduate students borrowing $0.3 billion. For supplemental loans, in 1981, 565,000 family loans for $1.8 billion, 80,000 professional students borrowing $0.2 billion, and 1.6 million students borrowing $0.9 billion to cover self-help or unmet need. Overall, 3.4 million loans would provide $3.9 billion in fiscal year 1981.

TABLE 14. COMPARATIVE DISTRIBUTION OF SUBSIDIZED LOAN FUNDS TO STUDENTS AND THEIR FAMILIES IN FISCAL YEAR 1981, UNDER VARIOUS LEGISLATIVE PROPOSALS: IN THOUSANDS OF LOANS AND MILLIONS OF DOLLARS

	Total Loan Volume		Highly Subsidized Loans[a]		Less Highly Subsidized Loans	
	Amount	Percent	Amount	Percent	Amount	Percent
Current Policy						
Loans	2,979	100	2,979	100	0	0
Dollars	5,760	100	5,760	100	0	0
H.R. 5192						
Loans	3,102	100	3,021	97	81	3
Dollars	6,219	100	5,982	96	237	4
S. 1870						
Loans	3,352	100	3,271	98	81	2
Dollars	6,419	100	6,182	96	237	4
S. 1600						
Loans	2,495	100	1,770	71	725	29
Dollars	5,360	100	3,100	58	2,260	42
S. 1840 at 60 percent[b]						
Loans	3,445	100	1,250	36	2,195	64
Dollars	3,874	100	1,024	26	2,850	74
S. 1840 at 100 percent						
Loans	2,195	100	1,250	57	945	43
Dollars	3,957	100	1,707	43	2,250	57

a. Loans that forgive interest while students are in school are considered highly subsidized.

b. To allow comparison with other proposals, estimates have been provided for S. 1840 at 60% and 100% implementation. As proposed, this plan would be phased in over three years, with only 60 percent of need met in fiscal year 1981.

TABLE 15. COMPARATIVE COST ESTIMATES FOR FIVE OPTIONS FOR STUDENT LOAN PROGRAMS

	Current Programs	H.R. 5192	S. 1870	S. 1600	S. 1840 (at 60%)[a]	S. 1840 (at 100%)
First-year cost of new loans provided in fiscal year 1981 (in millions of dollars)	703	731	746	522	1,162	1,832
Full-term cost of new loans provided in fiscal year 1981 (in millions of 1981 dollars)	2,778	2,864	2,962	2,353	-----	1,315

a. To allow comparison with other proposals, estimates have been provided for S. 1840 at 60% and 100% implementation. As proposed, this plan would be phased in over three years, with only 60 percent of need met in fiscal year 1981.

H.R. 5192 as Passed by the House of Representatives

H.R. 5192 would expand eligibility for GSLs to parents at a less subsidized rate than that for students. It would also increase the overall loan limits, and change the administrative process in order to reduce defaults. The NDSL program would not be changed significantly.

This package of loans (GSLs, parent loans, and NDSLs) would provide 3.1 million borrowers with $6.2 billion in fiscal year 1981. The first year federal cost of these loans would be approximately equal to the cost under current programs. The long-term costs of the loans provided in 1981 would be $2.9 billion, or 46 percent of the original amount borrowed.

These estimates are based on the assumption that most families would act as a unit and use the least costly loan program available. Families, therefore, would be more likely to have their students borrow money that bears no interest while the student is in school, than to have parents borrow money that bears 7 percent interest immediately. As a result, there would be relatively low demand for parental loans. Most parental borrowing would occur among middle- and higher-income families with children attending higher-cost institutions.

S. 1870, Introduced by Senator Williams

This proposal adapts H.R. 5192 by extending eligibility to students enrolled less than half time and by increasing the interest on NDSLs from 3 percent to 7 percent. This loan package would provide 3.4 million students with $6.4 billion in loans in fiscal year 1981. The first-year federal cost would be $0.7 billion. The long-term cost of the proposal is $100 million higher than the cost of the House bill, because the increased costs for providing benefits to less-than-half-time students are not quite offset by increased NDSL collections resulting from the higher interest charges.

Increasing eligibility to students enrolled less than half time would not appreciably increase overall lending or program costs. If these students participate at the same rate as other students, the total guaranteed student loan volume is projected

to increase by only 4 percent. But because the costs of administering these relatively small loans would lower lenders' profits, less-than-half-time students might find it difficult to secure loans.

S. 1600, The National Student Loan Reform Act, Introduced by Senators Bellmon and Kennedy

S. 1600 would considerably alter the structure of the student loan program. It would (1) target highly subsidized loans on needy students, (2) provide less highly subsidized loans to students and families without assessed financial need, and (3) shift new, need-based student loans from private lenders to a federal lender. In fiscal year 1981 this program, if fully operational, would provide 2.5 million loans amounting to $5.4 billion. The federal cost in fiscal year 1981 would be $0.5 billion. The residual costs resulting from GSLs and NDSLs made in prior years would be appreciably less than under the previously discussed options because repayments from the old NDSL program would be available to reduce budget costs. Over the life of the loans provided in fiscal year 1981 under S. 1600, federal costs would amount to $2.4 billion, or 44 percent of the original amount borrowed.

S. 1600 would provide slightly fewer loans and dollars than the previously discussed options. Compared to the current programs, savings in federal costs could be appreciable in the early years. In the first year, it would reduce federal costs (budget authority) by $0.5 billion below the current programs, with savings increasing to more than $1 billion a year by 1985 (see Table 16). In later years, while still less expensive than the current programs, the savings would not be as great because S. 1600 allows more time for repayment, thus continuing the interest subsidy for a much longer period.

The pattern of borrowing would be quite different under this plan than it is under current programs. About 40 percent of the amount borrowed would be in the less highly subsidized parental borrowing component of the plan, a much higher level of presumed parental borrowing than under either H.R. 5192 or S. 1870.

TABLE 16. FIVE-YEAR COST PROJECTIONS OF FIVE STUDENT LOAN PROPOSALS: IN BILLIONS OF DOLLARS[a]

Fiscal Year	Current Programs	H.R. 5192	S. 1870	S. 1600	S. 1840
1981	2.0	2.1	2.1	1.5	2.1
1982	2.4	2.4	2.4	1.4	2.2
1983	2.7	2.8	2.8	1.0	2.2
1984	2.8	2.9	2.9	1.2	2.0
1985	2.8	2.8	2.9	1.4	2.0
Five-Year Total	12.8	13.0	13.2	6.5	10.5

NOTE: Rows may not sum to totals because of rounding.

a. Includes direct expenditures for new loans and prior-year commitments for GSL and NDSL loans; does not include tax expenditures from sale of tax-exempt bonds to finance state lending.

S. 1840, the Administration's Proposal

The Administration's proposal, much like S. 1600, would significantly alter the structure of student loans. It too would (1) target highly subsidized loans on needy undergraduate students, (2) provide less highly subsidized loans to students and families without assessed financial need and to graduate students, and (3) shift new, need-based student loans from private lenders to a federal lender. It differs from S. 1600 by (1) imposing a more rigorous measure of financial need (requiring students to contribute at least $700 toward their educations), (2) excluding only graduate students studying business, law, or medicine from eligibility for highly subsidized loans, (3) requiring that all capital and administration costs be provided through direct appropriations, and (4) increasing the interest rate on less highly subsidized loans. The Administration proposes phasing in the need-based loan program over three

years; students would receive 60 percent of their loan entitlement in 1981, 80 percent in 1982, and 100 percent thereafter. In fiscal year 1981, this would provide 3.4 million loans to students and their families amounting to $3.9 billion. The federal cost in fiscal year 1981 would be $2.1 billion. This first-year cost, however, can be misleading when compared with the first-year costs of other proposals. Funding totally through direct appropriations, rather than deferring costs through long-term commitments to lenders or through federal borrowing, creates very high initial costs until future repayments start to offset new capital requirements.

Assuming borrowers received 100 percent of their entitlement instead of the reduced amounts implied by the scheduled phase-in, the federal cost for S. 1840 over the life of all loans provided in a year (in 1981 dollars) would be $1,315 million, or 33 percent of the original amount borrowed.

This proposal would provide appreciably fewer loans and dollars than any of the other proposals because of the more rigorous needs test, the restrictions on eligibility, and the limited availability of loans during the phase-in. Federal outlays would be relatively high in early years, but would diminish significantly in future years as repayments began to offset new capital requirements.

This proposal would have a unique effect on the distribution of loans. During the two-year phase-in, many students borrowing basic loans also would need to borrow supplemental loans to meet the balance of their assessed financial need. Even after the transitional phase-in, however, 57 percent of the loan volume would be provided through the less highly subsidized component of the loan program, proportionally more than in any of the other alternatives.

CHAPTER V. EFFORTS TO REMOVE NONFINANCIAL IMPEDIMENTS TO EQUAL EDUCATIONAL OPPORTUNITY

Four federal programs focus on nonfinancial barriers that may impede disadvantaged students' educational progress. They appear to have been successful in encouraging some disadvantaged young people to continue their education beyond high school.

THE SPECIAL PROGRAMS FOR THE DISADVANTAGED

The four Special Programs for Students from Disadvantaged Backgrounds--Upward Bound, Talent Search, Special Services to Disadvantaged Students, and Educational Opportunity Centers--vary in scope and funding (see Table 17). Created as subpart 4 of Title IV of the Higher Education Act of 1965, these programs were intended to identify and assist people from low-income backgrounds who might benefit from continuing their education and to provide special services for those who ultimately enroll in postsecondary education.

Upward Bound

Through grants to postsecondary institutions (primarily four-year colleges and universities), Upward Bound provides promising low-income high school students with services designed to develop the academic skills and motivation necessary for success in education beyond high school.

Fiscal year 1980 funding for Upward Bound is $63 million. In 1978, 37,000 students were provided Upward Bound services. About 80 percent of the participants have been minority students in the past, and nearly two-thirds have come from families with incomes below the poverty level.

Most students participate in the Upward Bound program for two or three years during high school. In general, they receive counseling and support during the regular school year. In summer most of them reside at the sponsoring institutions, where they receive more intensive college preparatory instruction and counseling. These services are designed not only to prepare

TABLE 17. SCOPE AND FUNDING OF SPECIAL PROGRAMS FOR DISADVANTAGED STUDENTS, FISCAL YEARS 1979-1980

Program	Target Population	Appropriations[a] 1979	1980	1981 Current Program Levels[b]
Talent Search	Disadvantaged youth no longer in school	15.3	15.3	17.0
Upward Bound	Disadvantaged high school students	60.9	62.5	69.3
Special Services for Disadvantaged Students	Disadvantaged post-secondary students	55.3	60.0	66.5
Educational Opportunity Centers	Residents of localities with high concentrations of disadvantaged youth and adults	6.5	7.7	8.5

a. The Special Programs currently are authorized to spend $200 million. Total appropriations in fiscal year 1980 are $145.5 million (not including $2 million for staff training).

b. Current program level estimates reflects funding required to maintain the same level of services provided in fiscal year 1980.

them academically, culturally, and socially for postsecondary education, but also to motivate them to continue their education.

Talent Search

Through grants primarily to public and private service agencies (although educational institutions are also eligible), the Talent Search program supports projects to identify financially or culturally disadvantaged youth who would benefit from postsecondary education but are no longer in school. The various projects provide supportive services designed to encourage them to continue their education. In the past, most projects concentrated on counseling and advising. More recently, however, many projects have expanded their scope to include tutoring and special classes.

Funding for Talent Search in fiscal year 1980 is $15 million. More than 186,000 people participated in 1978, and about 80 percent of the participants were from minority groups.

Special Services for Disadvantaged Students

This program awards grants to postsecondary institutions that provide remedial help to disadvantaged students enrolled in the institutions. Students receiving the services must come from a deprived educational, cultural, or economic background, be physically handicapped, or have limited English-speaking ability. The intent of the program is to increase the postsecondary retention and graduation of disadvantaged youth with academic potential.

Fiscal year 1980 funding for the Special Services program is $60 million, which should allow the program to serve approximately 150,000 students this year.

Educational Opportunity Centers

Sharing costs with local governments, this program establishes centers at postsecondary institutions or private or public service agencies to serve disadvantaged localities. They are available to youth and adults from all spheres of the community. The projects provide counseling and assistance in

securing admission, financial aid, and tutoring from post-secondary institutions.

Fiscal year 1980 funding for the Educational Opportunity Centers is $8 million. In 1978, more than 85,000 people were served by the centers, and more than half were minority group members.

ACCOMPLISHMENTS OF THE PROGRAMS

Although the Special Programs for the Disadvantaged have operated for nearly 15 years, little is known about the extent to which they accomplish their mission. With the exception of Upward Bound, the Special Programs have not been rigorously evaluated.

The Upward Bound program appears to encourage some students to continue their education beyond high school and to remain in postsecondary education once they do enroll. It does not, however, appear to improve the postsecondary academic performance of participants.

While Upward Bound participants are no more likely to graduate from high school than similar students not participating in the program,[1] they are more likely to attend college. On average, they remain in college longer. Ninety-one percent of the Upward Bound high school graduates continued into post-secondary education, compared to 72 percent of similar non-Upward Bound high school graduates. Upward Bound students are also more likely to attend four-year institutions than similar students not involved in the program. In part, this is because a majority of the Upward Bound students who go to college (53

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1. Approximately 70 percent of both the Upward Bound students and similar students not in the program completed high school within three years from tenth grade entry, although more than 95 percent of both groups completed high school or its equivalent by 1979, which was six years after the initial survey. See: G.J. Burkheimer, J.A., Riccobono, J.M. Wisenbaker, Evaluation Study of the Upward Bound Program: A Second Follow-up. Prepared for the Office of Evaluation and Dissemination, U.S. Office of Education, by the Center for Education Research and Evaluation, Research Triangle Institute, November 1979.

percent) enroll in the postsecondary institution that sponsored their Upward Bound experience, and most of the sponsoring institutions are four-year colleges or universities.

Upward Bound students tend to remain in college longer than similar non-program students, although this is principally because they are more likely to attend four-year institutions. Although there are not enough data yet to indicate whether Upward Bound participants are more likely to graduate from college or pursue graduate education, they do aspire to higher levels of education than similar students not in the program.

These differences in attendance patterns, however, may not be fully attributable to the program. The differences may result from intervening conditions. For example, the differences noted in the evaluation could have occurred because of unique conditions that led to the selection of program participants rather than because of what the program itself accomplished.[2]

Despite the increase in postsecondary enrollment and persistence, the academic component of the Upward Bound program does not appear to have improved participants' postsecondary academic performance. In general, students from lower-income families perform below the mean of all college students, and this is no different for Upward Bound students. In fact, those who have participated in the program have slightly lower college

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2. If projects recruit students who already are more likely to go to college, or if high school students who are interested in going to college seek out Upward Bound projects, then program participants will almost certainly be more likely to attend college. On the other hand, if projects select students who, on average, are less likely to continue their education, then program participants will be less likely to attend college. The Upward Bound evaluation study selected the group of students to compare to program participants from within the same schools attended by program participants. This makes it difficult, within the study, to control for possible bias resulting from selection of program participants. If the comparison group(s) had been selected from high schools that did not host Upward Bound, the preselection bias could have been reduced, but an even more serious potential bias resulting from between-school differences would have been introduced.

grades and earn slightly fewer credits per term, all else being equal, than similar postsecondary students who have not.

Costs of Upward Bound. The costs of Upward Bound projects varied from $700 to $2,900 per student in fiscal year 1979. On average, costs per student in 1979 were $1,662. Thus, on average, it would cost approximately $3,300 to serve a student for two years, or $5,000 for three years. But most of these youth (about 72 percent) would have continued their education whether they participated in Upward Bound or not. Therefore, the cost of inducing students to attend postsecondary education is much higher than the average amount spent on the program per student.

OPTIONS FOR ALTERING THE SPECIAL PROGRAMS FOR THE DISADVANTAGED

Three types of options are examined below:

- Maintaining the current level of services in the programs;
- Expanding the programs to reach a larger portion of the target population; or
- Changing the focus of the programs.

Maintaining the Current Level of Services

To maintain the same quantity and quality of services in the Special Programs would require $161 million in fiscal year 1981, an increase of 10.9 percent over the level of funding provided for 1980.[3] While this would assure the same level of services in Talent Search, Special Services, and Equal Opportunity Centers, the lack of adequate program evaluations makes it difficult to estimate what impact this would have on the behavior of program participants. Effects, however, can be estimated for Upward Bound. If maintained at its current level of services, 37,000 students would receive benefits, of which approximately 32,000 would attend college. Nearly 6,700 of

3. The 10.9 percent increase reflects CBO's estimate of the increase in the higher education price index from 1980 to 1981.

these students probably would not have gone to college without Upward Bound.

Expanding Programs to Reach a Larger Portion of the Target Population

Although in each of the Special Programs the potential target population of youth greatly exceeds the number currently being served, each program varies in its ability to expand because of the potential supply of providers.

Upward Bound. The prime arguments for expanding Upward Bound are that the program appears to help some disadvantaged youth attain higher levels of education, and that at present the program reaches only a small portion of high school students from low-income families. The number of those not served by Upward Bound, however, does not indicate how many could potentially benefit from it. Not all students from low-income families have the academic skills essential to higher education. Many others are already doing well academically, and need no further motivation to remain in school or to continue their education beyond high school. Nevertheless, many more could probably benefit from participating in Upward Bound. Two ways in which the program could be expanded are:

- o Increasing the number of projects; and
- o Increasing the size of existing projects.

Based on the current number of requests, Upward Bound could be expanded by 25 to 50 percent by funding additional projects. The number of project proposals increased nearly 20 percent from 1978 to 1979, and only 16 percent (35 out of 223) of the requests were funded. While some were rejected because they failed to meet program requirements, a number were not funded simply because of a lack of funds. Furthermore, the awareness that only limited funds were available quite likely dissuaded other prospective qualified sponsors from submitting proposals.

The program could also be expanded by relaxing requirements for sponsoring institutions, or increasing the size of existing projects. For example, the summer residency requirement could be reduced or eliminated so that more two-year community colleges would qualify as sponsors. But eliminating the summer residential component, which provides the only intensive

opportunity to change the students' living environment, could seriously erode program effectiveness.

Current projects could also be expanded to reach more students. If existing sponsors were funded at the level requested they could serve approximately 10 percent more students.

Talent Search. Talent Search is funded at $15 million in fiscal 1980. In 1978 the program provided services to less than 5 percent of the 4 million 14- to 27-year-old people in poverty who were not enrolled in school. Only about 30 percent of new project proposals were funded in fiscal year 1978, suggesting that the program could expand quite significantly without exhausting the current supply of prospective providers. While not all of the unfunded proposals were rejected because of a lack of funds (some of them presented unacceptable plans), if the rejection rate could be cut in half the number of projects would increase by 23 percent. Current projects might also be expanded.

Special Services for the Disadvantaged. The Special Services program, funded at $60 million for fiscal year 1980, probably could be expanded quite significantly without exhausting the potential either of program participants or of sponsoring postsecondary institutions. The demand for these services, as measured by the number of proposals from prospective new sponsoring institutions, has grown rapidly since Section 504 of the Rehabilitation Act required that all postsecondary institutions providing federal student assistance also assure equal access and educational opportunity for handicapped students. What is not known, however, is whether expanding the program will increase the level of services for disadvantaged and handicapped students or simply substitute federal funds for institutional funds already being provided.

Educational Opportunity Centers. The EOC program, funded at $8 million in fiscal year 1980, would probably have no difficulty finding additional qualified sponsors. In 1978, less than 20 percent of all new requests received funding.

Changing the Focus of Programs

One possible redirection of special service programs is currently being developed by the Office of Education (OE) and the Department of Labor (DOL). OE and DOL are cooperating in an

experiment to combine Upward Bound and CETA; ten joint projects have been established. Incorporating a work component into Upward Bound would address two issues: First, it could help prepare participants for the world of work, and integrate their educational aspirations with preparation for a career. Second, a work component would provide participants with a modest income that would alleviate some financial hardship and mitigate, to some extent, the conflict with alternative opportunities that many program participants currently face.[4] A work component in Upward Bound could focus on summer employment, part-time employment while youth are in school, or both. Including a summer work component would increase annual per capita costs by approximately $400,[5] whereas an in-school component would increase per capita costs by $1,100.[6]

Another option would be to experiment openly with ways to reduce impediments to equal educational opportunity. New intervention strategies, such as providing more information and motivational support to students earlier in their secondary education, or guaranteeing future financial aid, could be established as experiments. Far too little currently is known about how to encourage disadvantaged youth to continue their education, and an experimental approach would provide a useful guide for future policy.

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4. In some areas, the Upward Bound program has found it difficult to compete with federal youth employment programs because the youth prefer to earn money rather than attend summer school. Two current CETA programs, the Summer Youth Employment Program (SYEP) and the Youth Incentive Entitlement Pilot Projects (YIEPP), focus on students similar to those in Upward Bound. SYEP provides summer jobs to low-income youth. While SYEP jobs provide an income, they do little for increasing participants' future employability. YIEPP, on the other hand, induces youth to remain in school by guaranteeing them part-time employment during the school term and full-time employment during the summers.

5. Assumes 15 hours per week employment for 8 weeks at the minimum wage.

6. Assumes 10 hours per week for 36 weeks at the minimum wage.

CHAPTER VI. OVERALL BUDGET IMPLICATIONS OF FUTURE FEDERAL POLICY FOR STUDENT ASSISTANCE

Although this paper has approached each type of federal student assistance separately, the various programs do not work independently--each affects the others. For example, a decrease in the level of Basic Grant awards will result in increased demand for student loans. The programs also compete with one another for scarce budget resources: within a constrained budget environment, resources used for one program are not available for others. Although many budget strategies exist, four are likely to receive extensive Congressional attention:

- o Maintaining current programs;
- o Adopting the Administration's reauthorization proposal;
- o Implementing H.R. 5192;
- o Reducing funding for student assistance.

MAINTAINING SERVICE LEVELS FOR MAJOR STUDENT ASSISTANCE PROGRAMS

If current student assistance policies were to be maintained in 1981, benefits would increase overall by 8 percent, whereas the number of recipients would decline by 1 percent (see Table 18). The largest increase would occur in the GSL program, which continues to grow rapidly under the policy of extending in-school interest-free loans to all students through MISAA. Overall, federal funding would increase only 5 percent.

Sustaining the current level of services would maintain the dual focus of student assistance policy established by the Middle Income Student Assistance Act of 1978. Although it is not clear what portion of the total funds would be focused on promoting equality of educational opportunity for disadvantaged students, and what portion would be focused on reducing the burden of college costs for middle-income students and their

TABLE 18. FEDERAL FUNDING, BENEFITS AND RECIPIENTS OF MAJOR STUDENT ASSISTANCE PROGRAMS IF CURRENT LEVEL OF SERVICES IS MAINTAINED IN 1981: FUNDS AND BENEFITS IN MILLIONS OF DOLLARS, RECIPIENTS IN THOUSANDS

Programs	1980	1981
BEOGs		
Funding	2,524	2,561
Benefits	2,524	2,561
Recipients	2,632	2,525
SEOGs		
Funding	370	410
Benefits	370	410
Recipients	623	623
SSIGs		
Funding	77	85
Benefits	154	171
Recipients	307	307
CWS		
Funding	550	610
Benefits	604	670
Recipients	990	990
GSLs		
Funding	1,609	1,690
Benefits	4,500	4,995
Recipients	2,079	2,079
NDSLs		
Funding	301	334
Benefits	679	753
Recipients	914	914
TOTAL STUDENT ASSISTANCE[a]		
Funding	5,431	5,690
Benefits	8,831	9,560
Recipients	7,545[b]	7,438[b]
Special Programs (funding) for the Disadvantaged	146	161

NOTE: Assumes full funding of the BEOG program of an $1800 maximum award in 1980 and 1981, which will require a supplemental appropriation of $292 million for fiscal year 1980. Also assumes a supplemental of $649 million for GSLs in fiscal year 1980.

a. Student assistance in this context refers only to the aid provided through the six major student assistance programs within the Office of Education.

b. Duplicated count, thus not equivalent to the number of students receiving benefits. Many students receive two or more types of federal student aid.

families,[1] it appears that the emphasis would shift slightly away from helping lower-income students and toward helping middle- and higher-income students. Grant aid would decline by 2 percentage points to 33 percent of the benefits. This slight shift in emphasis from grant aid to self-help would result from growth in the GSL program--growth that would be expected to occur principally among students from middle- and higher-income families.

Total costs for student assistance would increase only 5 percent from fiscal year 1980, principally because BEOG and GSL program costs would change very little. (Currently projected declines in interest rates, upon which the special allowance payments to lenders are based, would offset the effect of increased GSL borrowing.) The phenomenon of steady costs in spite of increased lending, however, would be short-lived. From fiscal year 1981 to fiscal year 1982, federal costs are projected to increase by 19 percent if the current GSL program is continued.

Support for the Special Programs for the Disadvantaged would increase by nearly 11 percent because of inflation, but would remain low compared to student financial assistance.

ADOPTING THE ADMINISTRATION'S REAUTHORIZATION AND BUDGET PROPOSALS

If the Administration's reauthorization and budget proposals were adopted and fully funded in fiscal year 1981, benefits would decline by 20 percent, the total number of awards would increase by 8 percent, and federal funding would increase by 2 percent (see Table 19). A number of factors contribute to this unusual relationship between benefits, recipients, and federal funding requirements.

The Administration's proposal to increase the maximum grant to $1,900 would increase slightly both the amount of benefits

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1. Academic year 1979-1980 is the first year in which MISAA has been fully in effect. No data are yet available to indicate how students, families, and college financial aid officers have reacted.

TABLE 19. FEDERAL FUNDING, BENEFITS, AND RECIPIENTS OF MAJOR STUDENT ASSISTANCE PROGRAMS IN FISCAL YEAR 1981 IF ADMINISTRATION'S REAUTHORIZATION PROPOSAL IS ADOPTED: FUNDS AND BENEFITS IN MILLIONS OF DOLLARS, RECIPIENTS IN THOUSNDS

Program	Current Level of Services	Administration's Reauthorization and Budget Proposals
BEOGs		
Funding	2,561	2,649
Benefits	2,561	2,649
Recipients	2,525	2,660
SEOGs		
Funding	410	370
Benfits	410	370
Recipients	623	623
SSIGs		
Funding	85	77
Benefits	171	154
Recipients	307	307
CWS		
Funding	610	550
Benefits	670	604
Recipients	990	990
GSLs		
Funding	1,690	1,396
Benefits	4,995	2,850
Recipients	2,079	2,195
NDSLs		
Funding	334	740
Benefits	753	1,024
Recipients	914	1,250
TOTAL STUDENT ASSISTANCE		
Funding	5,690	5,782
Benefits	9,560	7,651
Recipients	7,438	8,025
Special Programs (funding)	161	160

NOTE: These estimates assume full funding of the BEOG program. Full funding of current services would require $292 million more than the Administration has requested for fiscal year 1981. Full funding of the proposed $1,900 maximum would require $340 million more than the Administration has requested even with the anticipated $80 million in anticipated savings from reducing fraud and abuse.

and the number of BEOG recipients.[2] On the other hand, the Administration's proposal to retarget highly subsidized loans on needy students would significantly reduce the level of benefits for middle- and higher-income students. The number of recipients would increase because the Administration proposes phasing in the change over two years; thus needy students would have to borrow in both the highly subsidized loan program and the supplemental program to meet their assessed financial need. In the other programs, the Administration proposes maintaining the 1980 level of funding. Level funding, however, represents an 11 percent real dollar decline in services because of inflation. As a result, either students would receive awards that cover less of the educational costs or fewer students would receive awards. The ultimate outcome would depend on the decisions of the financial aid officers who are responsible for distributing these funds.

Federal funding would increase despite declines in service in all but the BEOG program. The new loan program, which would require that the full capital contribution be directly appropriated, would incur high budget costs until future repayments started.

IMPLEMENTING H.R. 5192

Fully implementing H.R. 5192 at the authorization levels included in the bill would increase funding for federal student assistance to $7.2 billion in fiscal year 1981, 27 percent more than maintaining the the current level of services (see Table 20). Assuming full implementation of the bill in the first year, however, is somewhat misleading because many of the authorization limits are established to allow room for the programs to grow in future years. Therefore, focusing on specific aspects of H.R. 5192 that would most directly affect program costs in the near term provides more insight into the likely impact of the bill.

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2. This assumes full funding of the Administration's proposal. CBO estimates, however, that the Administration has not requested sufficient funding in their fiscal year 1981 budget to fully fund the BEOG program. CBO estimates that full funding would require $340 million more than requested, even with $80 million in anticipated savings from reductions in fraud and abuse.

TABLE 20. FEDERAL FUNDING, BENEFITS, AND RECIPIENTS OF MAJOR STUDENT ASSISTANCE PROGRAMS IN FISCAL YEAR 1981 IF H.R. 5192 IS IMPLEMENTED: FUNDS AND BENEFITS IN MILLIONS OF DOLLARS, RECIPIENTS IN THOUSANDS

Programs	Current Level of Services in 1981	H.R. 5192
BEOGs		
Funding	2,561	3,887
Benefits	2,561	3,887
Recipients	2,525	3,683
SEOGs		
Funding	410	500
Benefits	410	500
Recipients	623	760
SSIGs		
Funding	85	100
Benefits	171	200
Recipients	307	361
CWS		
Funding	610	670
Benefits	670	736
Recipients	990	1087
GSLs		
Funding	1,690	1,720
Benefits	4,995	5,454
Recipients	2,079	2,202
NDSLs		
Funding	334	400
Benefits	753	819
Recipients	914	994
TOTAL STUDENT ASSISTANCE		
Funding	5,690	7,277
Benefits	9,560	11,530
Recipients	7,438	9,007

The components of H.R. 5192 that would most significantly affect student assistance funding in the next few years are the proposals for modifying the GSL and BEOG programs. Costs for the GSL program would rise slightly more rapidly than under the current program because the bill would provide parents with the opportunity to borrow (at less heavily subsidized rates than students), and would raise loan limits for some student borrowers. These changes would tend to increase subsidies for students from higher-income families attending high-cost institutions.

BEOG costs would increase appreciably if H.R. 5192 was enacted and the program was fully funded. Costs would be 52 percent higher than fully funding the current program in fiscal year 1981. Average basic grant awards would increase by 4 percent, from $1,014 to $1,055. Approximately half of the increased support would go to lower-income students with family incomes below $15,000.

Increased funding for BEOGs, however, might not necessarily translate into equivalent reductions in net costs to students. The BEOG program does not exist in a vacuum--states and institutions also play an important role in determining the costs students face. If states responded to significant increases in BEOG funding by increasing tuitions at state-supported schools or by reducing funding for state grants to students, then the net cost to students would not decline. In the recent past, it does not appear that states have substituted federal student assistance for state aid. In fact, state and local support for higher education increased from 41 percent of total expenditures in 1970 to 47 percent in 1977, coincident with dramatic increases in student aid.[3]

Although the authorization levels for student aid programs other than GSLs and BEOGs are much higher in H.R. 5192 than under current law, funding for these programs would be less likely to grow rapidly. Large changes in GSLs or BEOGs, however, would likely have an effect on the other programs. An increased supply of assistance in the major programs could reduce the demand for funding in the other programs unless their scope also changed.

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3. Carnegie Corporation, Three Thousand Futures. Final Report of the Carnegie Council on Policy Studies in Higher Education (1980).

REDUCING FUNDING FOR STUDENT ASSISTANCE

In recent years, the Congress has expressed increasing concern about the burgeoning federal budget and has seriously examined ways to restrain federal spending. While federal funding for postsecondary education has increased dramatically, several factors--such as declining enrollments and demographic changes that will reduce the burden of college costs for some families-- make student assistance a likely target for future budget cuts. The effect of such cuts on recipients and benefit levels would depend both on the program designs established in the reauthorization process and on the funding reductions established in appropriations.

The current programs are not well suited for potential budget reductions if one wishes to avoid cutting awards for lower-income students. In fact, imposing a funding constraint would have the perverse effect of reducing assistance for needy students while allowing assistance to students and families with little or no financial need to increase without check. The Guaranteed Student Loan program, which is available to all students regardless of need, is an uncontrollable item in the federal budget process. Consequently, if GSL costs continue to rise rapidly, funding for other student assistance programs will have to decline unless total funding is increased. Only limited budget reductions could be achieved in programs other than the BEOG program without infringing mandated minimum funding levels. For example, funding could not be reduced below the 1980 appropriations levels of $370 million for SEOGs and $286 million for NDSLs, which are the minimum funding levels mandated in current law. For College Work-Study, the minimum funding level of $500 million is only $50 million below 1980 appropriations. The only program that could be reduced to make room for significantly increased GSL costs would be the BEOG program. The BEOG program has a scheduled reduction formula protecting awards for the most needy students, so moderate and middle-income students' awards would be reduced the most by any funding cut.

Reauthorization provides Congress with the opportunity to design federal policy that will protect the most needy students if funding is reduced. Students from middle- and higher-income families would be less seriously affected by reductions in assistance--while reduced benefits mean increased burden for

them and their families, they generally have access to other financial resources (family contributions, savings, and earnings) that can be substituted, albeit at some personal sacrifice, for lost federal assistance. Students from lower-income families, on the other hand, have fewer resources, so a decline in federal assistance could mean that many of them would either be unable to remain in school or unable to remain in the school of their choice.

S. 1600, the National Student Loan Reform Act, is one reauthorization proposal that would maintain benefits for lower- and moderate-income students in the event of an overall budget reduction for student assistance. It would reduce federal costs by cutting loan subsidies for students from higher income families who need the assistance the least. Students with assessed financial need would be assured adequate capital through a federal lender.

Although virtually all current BEOG proposals include reduced funding formulas that protect the awards of the most needy students, the design of this formula can greatly affect the impact that reduced funding has on other students eligible for BEOGs. Under current law, if funding is reduced, no students lose their eligibility; rather, all but the most needy receive smaller awards. The awards of those with less need are diminished proportionately more than others. On the other hand, H.R. 5192's reduction formula, also proposed by the Administration, would gradually eliminate the least needy students from grant eligibility if funding were reduced. Thus the awards of moderate-income students would be decreased, but not as greatly as if all students eligible at full funding were assured at least partial grants.